



ANNUAL STATEMENT  
FOR THE YEAR ENDED DECEMBER 31, 2010  
OF THE CONDITION AND AFFAIRS OF THE

PHYSICIANS HEALTH PLAN OF MID-MICHIGAN

NAIC Group Code 3408, 3408 NAIC Company Code 95849 Employer's ID Number 38-2356288  
(Current Period) (Prior Period)

Organized under the Laws of Michigan, State of Domicile or Port of Entry Michigan

Country of Domicile US

Licensed as business type:

Life, Accident and Health [ ] Property/Casualty [ ] Hospital, Medical and Dental Service or Indemnity [ ]  
Dental Service Corporation [ ] Vision Service Corporation [ ] Other [ ]  
Health Maintenance Organization [ X ] Is HMO Federally Qualified? Yes ( ) No (X)

Incorporated/Organized December 18, 1980 Commenced Business October 1, 1981

Statutory Home Office 1400 East Michigan Avenue, Lansing, Michigan 48912  
(Street and Number, City or Town, State and Zip Code)

Main Administrative Office 1400 East Michigan Avenue, Lansing, Michigan 48912 517-364-8400  
(Street and Number, City or Town, State and Zip Code) (Area Code) (Telephone Number)

Mail Address 1400 East Michigan Avenue, Lansing, Michigan 48912  
(Street and Number, City or Town, State and Zip Code)

Primary Location of Books and Records 1400 East Michigan Avenue, Lansing, Michigan 48912  
(Street and Number, City or Town, State and Zip Code)  
517-364-8400  
(Area Code) (Telephone Number)

Internet Website Address www.phpmm.org

Statutory Statement Contact Jackie Eddy 517-364-8400  
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OFFICERS

Scott Wilkerson (President) Randolph Rifkin (Secretary)  
David Vis (Assistant Secretary) Patrick Gribben, Jr (Treasurer)

OTHER OFFICERS

Marylee Davis, PhD (Chair Person)

DIRECTORS OR TRUSTEES

Diana Rodriguez Algra#  
Wendell Barron  
Martha Bibbs  
Richard Bruner  
Marylee Davis, PhD  
Patrick Gribben, Jr  
Larry Rawsthorne, MD  
Randolph Rifkin  
Dawn Springer, MD  
Dennis Swan  
Scott Wilkerson

State of Michigan }  
County of Ingham } SS

The officers of this reporting entity, being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively.

Scott Wilkerson President Randolph Rifkin Secretary David Vis Assistant Secretary

Subscribed and sworn to before me this day of February, 2011

a. Is this an original filing? Yes ( ) No (X)

b. If no: 1. State the amendment number  
2. Date filed  
3. Number of pages attached

ASSETS

|   | Current Year |                            |  | Prior Year                  |
|---|--------------|----------------------------|--|-----------------------------|
|   | 1<br>Assets  | 2<br>Nonadmitted<br>Assets | 3<br>Net Admitted<br>Assets (Column 1<br>minus Column 2) | 4<br>Net Admitted<br>Assets |
| 1. Bonds (Schedule D) .....   |              |                            |  |                             |
| 2. Stocks (Schedule D):   |              |                            |  |                             |
| 2.1 Preferred stocks .....  |              |                            |  |                             |
| 2.2 Common stocks .....   | 27,913,308   | 150,410                    | 27,762,898   | 27,694,169                  |
| 3. Mortgage loans on real estate (Schedule B):  |              |                            |  |                             |
| 3.1 First liens .....   |              |                            |  |                             |
| 3.2 Other than first liens .....  |              |                            |  |                             |
| 4. Real estate (Schedule A):  |              |                            |  |                             |
| 4.1 Properties occupied by the company (less \$ ..... encumbrances) .....   | 2,067,915    |                            | 2,067,915  | 2,149,914                   |
| 4.2 Properties held for the production of income (less \$ ..... encumbrances) .....   |              |                            |  |                             |
| 4.3 Properties held for sale (less \$ ..... encumbrances) .....   |              |                            |  |                             |
| 5. Cash (\$ ..... (3,998,971) , Schedule E - Part 1) , cash equivalents (\$ ..... , Schedule E - Part 2) and short-term investments (\$ ..... 36,385,939 , Schedule DA) ..... | 32,386,968   |                            | 32,386,968   | 34,648,096                  |
| 6. Contract loans (including \$ ..... premium notes) .....  |              |                            |  |                             |
| 7. Derivatives .....  |              |                            |  |                             |
| 8. Other invested assets (Schedule BA) .....  | 6,582,522    | 64,576                     | 6,517,946  | 6,657,461                   |
| 9. Receivables for securities .....   | 160,213      |                            | 160,213  | 4,255,045                   |
| 10. Securities lending reinvested collateral assets .....   |              |                            |  |                             |
| 11. Aggregate write-ins for invested assets .....   |              |                            |  |                             |
| 12. Subtotals, cash and invested assets (Line 1 through Line 11) .....  | 69,110,926   | 214,986                    | 68,895,940   | 75,404,685                  |
| 13. Title plants less \$ ..... charged off (for Title insurers only) .....  |              |                            |  |                             |
| 14. Investment income due and accrued .....   | 174          |                            | 174  | 1,233                       |
| 15. Premiums and considerations:  |              |                            |  |                             |
| 15.1 Uncollected premiums and agents' balances in the course of collection .....  | 1,814,662    |                            | 1,814,662  | 1,020,732                   |
| 15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$ ..... earned but unbilled premiums) .....                         |              |                            |  |                             |
| 15.3 Accrued retrospective premiums .....   |              |                            |  |                             |
| 16. Reinsurance:  |              |                            |  |                             |
| 16.1 Amounts recoverable from reinsurers .....  | 311,445      |                            | 311,445  | 711,832                     |
| 16.2 Funds held by or deposited with reinsured companies .....  |              |                            |  |                             |
| 16.3 Other amounts receivable under reinsurance contracts .....   |              |                            |  |                             |
| 17. Amounts receivable relating to uninsured plans .....  |              |                            |  |                             |
| 18.1 Current federal and foreign income tax recoverable and interest thereon .....  |              |                            |  |                             |
| 18.2 Net deferred tax asset .....   |              |                            |  |                             |
| 19. Guaranty funds receivable or on deposit .....   |              |                            |  |                             |
| 20. Electronic data processing equipment and software .....   | 5,722,271    | 5,688,519                  | 33,752   | 79,354                      |
| 21. Furniture and equipment, including health care delivery assets (\$ ..... ) .....  | 98,024       | 98,024                     |  |                             |
| 22. Net adjustment in assets and liabilities due to foreign exchange rates .....  |              |                            |  |                             |
| 23. Receivables from parent, subsidiaries and affiliates .....  | 3,187,742    | 1,631,991                  | 1,555,751  | 1,350,014                   |
| 24. Health care (\$ ..... 950,727 ) and other amounts receivable .....  | 2,417,891    | 1,111,043                  | 1,306,848  | 1,464,048                   |
| 25. Aggregate write-ins for other than invested assets .....  | 634,726      | 634,726                    |  |                             |
| 26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Line 12 to Line 25) .....  | 83,297,861   | 9,379,289                  | 73,918,572   | 80,031,898                  |
| 27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts .....   |              |                            |  |                             |
| 28. Total (Line 26 and Line 27) .....   | 83,297,861   | 9,379,289                  | 73,918,572   | 80,031,898                  |
| DETAILS OF WRITE-INS  |              |                            |  |                             |
| 1101. ....  |              |                            |  |                             |
| 1102. ....  |              |                            |  |                             |
| 1103. ....  |              |                            |  |                             |
| 1198. Summary of remaining write-ins for Line 11 from overflow page .....   |              |                            |  |                             |
| 1199. Totals (Line 1101 through Line 1103 plus Line 1198) (Line 11 above) .....   |              |                            |  |                             |
| 2501. PREPAIDS .....  | 634,726      | 634,726                    |  |                             |
| 2502. ....  |              |                            |  |                             |
| 2503. ....  |              |                            |  |                             |
| 2598. Summary of remaining write-ins for Line 25 from overflow page .....   |              |                            |  |                             |
| 2599. Totals (Line 2501 through Line 2503 plus Line 2598) (Line 25 above) .....   | 634,726      | 634,726                    |  |                             |

LIABILITIES, CAPITAL AND SURPLUS

|  | Current Year |                |            | Prior Year |
|--|--------------|----------------|------------|------------|
|  | 1<br>Covered | 2<br>Uncovered | 3<br>Total | 4<br>Total |
|  |              |                |            |            |
| 1. Claims unpaid (less \$ ..... reinsurance ceded) .....   | 9,161,594    | 861,498        | 10,023,092 | 13,835,934 |
| 2. Accrued medical incentive pool and bonus amounts .....  | 4,064,429    |                | 4,064,429  | 5,087,426  |
| 3. Unpaid claims adjustment expenses .....   | 179,411      |                | 179,411    | 262,466    |
| 4. Aggregate health policy reserves .....  |              |                |            |            |
| 5. Aggregate life policy reserves .....  |              |                |            |            |
| 6. Property/casualty unearned premium reserve .....  |              |                |            |            |
| 7. Aggregate health claim reserves .....   |              |                |            |            |
| 8. Premiums received in advance .....  | 1,691,074    |                | 1,691,074  | 1,638,645  |
| 9. General expenses due or accrued .....   | 3,217,915    |                | 3,217,915  | 2,596,611  |
| 10.1 Current federal and foreign income tax payable and interest thereon (including \$ ..... on realized capital gains (losses)) ..... |              |                |            |            |
| 10.2 Net deferred tax liability .....  |              |                |            |            |
| 11. Ceded reinsurance premiums payable .....   |              |                |            |            |
| 12. Amounts withheld or retained for the account of others .....   | 117,638      |                | 117,638    | 128,251    |
| 13. Remittances and items not allocated .....  |              |                |            |            |
| 14. Borrowed money (including \$ ..... current) and interest thereon \$ ..... (including \$ ..... current) .....                       |              |                |            |            |
| 15. Amounts due to parent, subsidiaries and affiliates .....   | 2,883,838    |                | 2,883,838  | 1,063,388  |
| 16. Derivatives .....  |              |                |            |            |
| 17. Payable for securities .....   | 231,141      |                | 231,141    | 4,305,671  |
| 18. Payable for securities lending .....   |              |                |            |            |
| 19. Funds held under reinsurance treaties with (\$ ..... authorized reinsurers and \$ ..... unauthorized reinsurers) .....             |              |                |            |            |
| 20. Reinsurance in unauthorized companies .....  |              |                |            |            |
| 21. Net adjustments in assets and liabilities due to foreign exchange rates .....  |              |                |            |            |
| 22. Liability for amounts held under uninsured plans .....   |              |                |            |            |
| 23. Aggregate write-ins for other liabilities (including \$ ..... current) .....   |              |                |            |            |
| 24. Total liabilities (Line 1 to Line 23) .....  | 21,547,040   | 861,498        | 22,408,538 | 28,918,392 |
| 25. Aggregate write-ins for special surplus funds .....  | X X X        | X X X          |            |            |
| 26. Common capital stock .....   | X X X        | X X X          |            |            |
| 27. Preferred capital stock .....  | X X X        | X X X          |            |            |
| 28. Gross paid in and contributed surplus .....  | X X X        | X X X          |            |            |
| 29. Surplus notes .....  | X X X        | X X X          |            |            |
| 30. Aggregate write-ins for other than special surplus funds .....   | X X X        | X X X          | 993,647    |            |
| 31. Unassigned funds (surplus) .....   | X X X        | X X X          | 50,516,387 | 51,113,506 |
| 32. Less treasury stock, at cost:  |              |                |            |            |
| 32.1 ..... shares common (value included in Line 26 \$ ..... ) .....   | X X X        | X X X          |            |            |
| 32.2 ..... shares preferred (value included in Line 27 \$ ..... ) .....  | X X X        | X X X          |            |            |
| 33. Total capital and surplus (Line 25 to Line 31 minus Line 32) .....   | X X X        | X X X          | 51,510,034 | 51,113,506 |
| 34. Total liabilities, capital and surplus (Line 24 and Line 33) .....   | X X X        | X X X          | 73,918,572 | 80,031,898 |
| DETAILS OF WRITE-INS   |              |                |            |            |
| 2301. ....   |              |                |            |            |
| 2302. ....   |              |                |            |            |
| 2303. ....   |              |                |            |            |
| 2398. Summary of remaining write-ins for Line 23 from overflow page .....  |              |                |            |            |
| 2399. Totals (Line 2301 through Line 2303 plus Line 2398) (Line 23 above) .....  |              |                |            |            |
| 2501. ....   | X X X        | X X X          |            |            |
| 2502. ....   | X X X        | X X X          |            |            |
| 2503. ....   | X X X        | X X X          |            |            |
| 2598. Summary of remaining write-ins for Line 25 from overflow page .....  | X X X        | X X X          |            |            |
| 2599. Totals (Line 2301 through Line 2503 plus Line 2598) (Line 25 above) .....  | X X X        | X X X          |            |            |
| 3001. UNREALIZED INVESTMENT IN AFFILIATE .....   | X X X        | X X X          | 993,647    |            |
| 3002. ....   | X X X        | X X X          |            |            |
| 3003. ....   | X X X        | X X X          |            |            |
| 3098. Summary of remaining write-ins for Line 30 from overflow page .....  | X X X        | X X X          |            |            |
| 3099. Totals (Line 3001 through Line 3003 plus Line 3098) (Line 30 above) .....  | X X X        | X X X          | 993,647    |            |

STATEMENT OF REVENUE AND EXPENSES

|   | Current Year   |             | Prior Year  |
|---|----------------|-------------|-------------|
|   | 1<br>Uncovered | 2<br>Total  | 3<br>Total  |
| 1. Member Months  | X X X          | 432,399     | 498,975     |
| 2. Net premium income (including \$ non-health premium income)  | X X X          | 164,328,413 | 178,322,864 |
| 3. Change in unearned premium reserves and reserve for rate credits   | X X X          |             |             |
| 4. Fee-for-service (net of \$ medical expenses)   | X X X          |             |             |
| 5. Risk revenue   | X X X          |             |             |
| 6. Aggregate write-ins for other health care related revenues   | X X X          |             |             |
| 7. Aggregate write-ins for other non-health revenues  | X X X          |             |             |
| 8. Total revenues (Line 2 to Line 7)  | X X X          | 164,328,413 | 178,322,864 |
| <b>Hospital and Medical:</b>  |                |             |             |
| 9. Hospital/medical benefits  | 8,432,224      | 92,968,296  | 92,669,866  |
| 10. Other professional services   | 886,892        | 9,778,303   | 10,405,041  |
| 11. Outside referrals   |                |             |             |
| 12. Emergency room and out-of-area  | 1,365,324      | 15,053,188  | 13,249,022  |
| 13. Prescription drugs  | 2,751,392      | 30,335,080  | 32,331,025  |
| 14. Aggregate write-ins for other hospital and medical  | 22,493         | 247,991     | 809,444     |
| 15. Incentive pool, withhold adjustments, and bonus amounts   |                | 4,101,836   | 8,621,087   |
| 16. Subtotal (Line 9 to Line 15)  | 13,458,325     | 152,484,694 | 158,085,485 |
| <b>Less:</b>  |                |             |             |
| 17. Net reinsurance recoveries  |                | 2,360,856   | 1,403,647   |
| 18. Total hospital and medical (Line 16 minus Line 17)  | 13,458,325     | 150,123,838 | 156,681,838 |
| 19. Non-health claims (net)   |                |             |             |
| 20. Claims adjustment expenses, including \$ 2,506,113 cost containment expenses  |                | 3,685,460   | 3,989,944   |
| 21. General administrative expenses   |                | 10,603,780  | 11,415,246  |
| 22. Increase in reserves for life and accident and health contracts (including \$ increase in reserves for life only)                       |                |             |             |
| 23. Total underwriting deductions (Line 18 through Line 22)   | 13,458,325     | 164,413,078 | 172,087,028 |
| 24. Net underwriting gain or (loss) (Line 8 minus Line 23)  | X X X          | (84,665)    | 6,235,836   |
| 25. Net investment income earned (Exhibit of Net Investment Income, Line 17)  |                | 296,510     | 326,195     |
| 26. Net realized capital gains (losses) less capital gains tax of \$  |                | 94,277      | (604,005)   |
| 27. Net investment gains (losses) (Line 25 plus Line 26)  |                | 390,787     | (277,810)   |
| 28. Net gain or (loss) from agents' or premium balances charged off [(amount recovered \$ ) (amount charged off \$ )]                       |                |             |             |
| 29. Aggregate write-ins for other income or expenses  |                | 1,085,342   | 334         |
| 30. Net income or (loss) after capital gains tax and before all other federal income taxes (Line 24 plus Line 27 plus Line 28 plus Line 29) | X X X          | 1,391,464   | 5,958,360   |
| 31. Federal and foreign income taxes incurred   | X X X          |             |             |
| 32. Net income (loss) (Line 30 minus Line 31)   | X X X          | 1,391,464   | 5,958,360   |
| <b>DETAILS OF WRITE-INS</b>   |                |             |             |
| 0601.   | X X X          |             |             |
| 0602.   | X X X          |             |             |
| 0603.   | X X X          |             |             |
| 0698. Summary of remaining write-ins for Line 6 from overflow page  | X X X          |             |             |
| 0699. Totals (Line 0601 through Line 0603 plus Line 0698) (Line 6 above)  | X X X          |             |             |
| 0701.   | X X X          |             |             |
| 0702.   | X X X          |             |             |
| 0703.   | X X X          |             |             |
| 0798. Summary of remaining write-ins for Line 7 from overflow page  | X X X          |             |             |
| 0799. Totals (Line 0701 through Line 0703 plus Line 0798) (Line 7 above)  | X X X          |             |             |
| 1401. OTHER MEDICAL   | 22,493         | 247,991     | 809,444     |
| 1402.   |                |             |             |
| 1403.   |                |             |             |
| 1498. Summary of remaining write-ins for Line 14 from overflow page   |                |             |             |
| 1499. Totals (Line 1401 through Line 1403 plus Line 1498) (Line 14 above)   | 22,493         | 247,991     | 809,444     |
| 2901. OTHER INCOME HIGH RISK PROGRAM  |                | 1,085,342   | 334         |
| 2902.   |                |             |             |
| 2903.   |                |             |             |
| 2998. Summary of remaining write-ins for Line 29 from overflow page   |                |             |             |
| 2999. Totals (Line 2901 through Line 2903 plus Line 2998) (Line 29 above)   |                | 1,085,342   | 334         |

STATEMENT OF REVENUE AND EXPENSES (continued)

| CAPITAL AND SURPLUS ACCOUNT  | 1            | 2          |
|--|--------------|------------|
|  | Current Year | Prior Year |
| 33. Capital and surplus prior reporting year .....                                     | 51,113,506   | 33,150,627 |
| 34. Net income or (loss) from Line 32 .....  | 1,391,464    | 5,958,360  |
| 35. Change in valuation basis of aggregate policy and claims reserves .....            |              |            |
| 36. Change in net unrealized capital gains (losses) less capital gains tax of \$ ..... | (1,473,413)  | 2,879,444  |
| 37. Change in net unrealized foreign exchange capital gain or (loss) .....             |              |            |
| 38. Change in net deferred income tax .....  |              |            |
| 39. Change in nonadmitted assets .....   | (515,170)    | 9,125,075  |
| 40. Change in unauthorized reinsurance .....   |              |            |
| 41. Change in treasury stock .....   |              |            |
| 42. Change in surplus notes .....  |              |            |
| 43. Cumulative effect of changes in accounting principles .....                        |              |            |
| 44. Capital Changes:   |              |            |
| 44.1 Paid in .....   |              |            |
| 44.2 Transferred from surplus (Stock Dividend) .....                                   |              |            |
| 44.3 Transferred to surplus .....  |              |            |
| 45. Surplus adjustments:   |              |            |
| 45.1 Paid in .....   |              |            |
| 45.2 Transferred to capital (Stock Dividend) .....                                     |              |            |
| 45.3 Tranferred from capital .....   |              |            |
| 46. Dividends to stockholders .....  |              |            |
| 47. Aggregate write-ins for gains or (losses) in surplus .....                         | 993,647      |            |
| 48. Net change in capital and surplus (Line 34 to Line 47) .....                       | 396,528      | 17,962,879 |
| 49. Capital and surplus end of reporting year (Line 33 plus Line 48) .....             | 51,510,034   | 51,113,506 |
| DETAILS OF WRITE-INS   |              |            |
| 4701. UNREALIZED INVESTMENT IN AFFILIATE .....   | 993,647      |            |
| 4702. ....   |              |            |
| 4703. ....   |              |            |
| 4798. Summary of remaining write-ins for Line 47 from overflow page .....              |              |            |
| 4799. Totals (Line 4701 through Line 4703 plus Line 4798) (Line 47 above) .....        | 993,647      |            |

CASH FLOW

|  | 1            | 2            |
|--|--------------|--------------|
|  | Current Year | Prior Year   |
| Cash from Operations   |              |              |
| 1. Premiums collected net of reinsurance   | 163,586,912  | 179,294,061  |
| 2. Net investment income   | 297,569      | 369,002      |
| 3. Miscellaneous income  | (354,864)    | 139,908      |
| 4. Total (Line 1 through Line 3)   | 163,529,617  | 179,802,971  |
| 5. Benefit and loss related payments   | 154,687,105  | 166,428,527  |
| 6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts                             |              |              |
| 7. Commissions, expenses paid and aggregate write-ins for deductions   | 12,665,649   | 13,684,766   |
| 8. Dividends paid to policyholders   |              |              |
| 9. Federal and foreign income taxes paid (recovered) net of \$ tax on capital gains (losses)                       |              |              |
| 10. Total (Line 5 through Line 9)  | 167,352,754  | 180,113,293  |
| 11. Net cash from operations (Line 4 minus Line 10)  | (3,823,137)  | (310,322)    |
| Cash from Investments  |              |              |
| 12. Proceeds from investments sold, matured or repaid:   |              |              |
| 12.1 Bonds   |              |              |
| 12.2 Stocks  | 937,012      | 53,877,322   |
| 12.3 Mortgage loans  |              |              |
| 12.4 Real estate   |              |              |
| 12.5 Other invested assets   |              | (664,790)    |
| 12.6 Net gains or (losses) on cash and short-term investments  |              |              |
| 12.7 Miscellaneous proceeds  | 126,481      | 50,626       |
| 12.8 Total investment proceeds (Line 12.1 through Line 12.7)   | 1,063,493    | 53,263,158   |
| 13. Cost of investments acquired (long-term only):   |              |              |
| 13.1 Bonds   |              |              |
| 13.2 Stocks  | 1,260,056    | 64,845,631   |
| 13.3 Mortgage loans  |              |              |
| 13.4 Real estate   | 24,178       | 114,800      |
| 13.5 Other invested assets   |              |              |
| 13.6 Miscellaneous applications  |              | 507,306      |
| 13.7 Total investments acquired (Line 13.1 through Line 13.6)  | 1,284,234    | 65,467,737   |
| 14. Net increase (decrease) in contract loans and premium notes  |              |              |
| 15. Net cash from investments (Line 12.8 minus Line 13.7 minus Line 14)  | (220,741)    | (12,204,579) |
| Cash from Financing and Miscellaneous Sources  |              |              |
| 16. Cash provided (applied):   |              |              |
| 16.1 Surplus notes, capital notes  |              |              |
| 16.2 Capital and paid in surplus, less treasury stock  |              |              |
| 16.3 Borrowed funds  |              |              |
| 16.4 Net deposits on deposit-type contracts and other insurance liabilities  |              |              |
| 16.5 Dividends to stockholders   |              |              |
| 16.6 Other cash provided (applied)   | 1,782,750    | 5,515,317    |
| 17. Net cash from financing and miscellaneous sources (Line 16.1 through Line 16.4 minus Line 16.5 plus Line 16.6) | 1,782,750    | 5,515,317    |
| RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS  |              |              |
| 18. Net change in cash, cash equivalents and short-term investments (Line 11 plus Line 15 plus Line 17)            | (2,261,128)  | (6,999,584)  |
| 19. Cash, cash equivalents and short-term investments:   |              |              |
| 19.1 Beginning of year   | 34,648,096   | 41,647,680   |
| 19.2 End of year (Line 18 plus Line 19.1)  | 32,386,968   | 34,648,096   |
| Note: Supplemental disclosures of cash flow information for non-cash transactions:                                 |              |              |
| 20.0001  |              |              |
| 20.0002  |              |              |
| 20.0003  |              |              |
| 20.0004  |              |              |
| 20.0005  |              |              |
| 20.0006  |              |              |
| 20.0007  |              |              |
| 20.0008  |              |              |
| 20.0009  |              |              |
| 20.0010  |              |              |

ANALYSIS OF OPERATIONS BY LINES OF BUSINESS

|   | 1           | 2   | 3                      | 4              | 5              | 6  | 7                       | 8                     | 9               | 10                  |
|---|-------------|---|------------------------|----------------|----------------|--|-------------------------|-----------------------|-----------------|---------------------|
|   | Total       | Comprehensive<br>(Hospital<br>and<br>Medical) | Medicare<br>Supplement | Dental<br>Only | Vision<br>Only | Federal<br>Employees<br>Health<br>Benefit Plan | Title XVIII<br>Medicare | Title XIX<br>Medicaid | Other<br>Health | Other<br>Non-Health |
| 1. Net premium income .....   | 164,328,413 | 160,480,936                                   |                        |                |                | 3,785,661                                      |                         |                       | 61,816          |                     |
| 2. Change in unearned premium reserves and reserve for rate credit .....          |             |   |                        |                |                |  |                         |                       |                 |                     |
| 3. Fee-for-service (net of \$ ..... medical expenses) .....                       |             |   |                        |                |                |  |                         |                       |                 | X X X               |
| 4. Risk revenue .....   |             |   |                        |                |                |  |                         |                       |                 | X X X               |
| 5. Aggregate write-ins for other health care related revenues .....               |             |   |                        |                |                |  |                         |                       |                 | X X X               |
| 6. Aggregate write-ins for other non-health care related revenues .....           |             | X X X   | X X X                  | X X X          | X X X          | X X X  | X X X                   | X X X                 | X X X           |                     |
| 7. Total revenues (Line 1 through Line 6) .....                                   | 164,328,413 | 160,480,936                                   |                        |                |                | 3,785,661                                      |                         |                       | 61,816          |                     |
| 8. Hospital/medical benefits .....  | 92,968,296  | 89,817,965                                    |                        |                |                | 2,679,439                                      |                         |                       | 470,892         | X X X               |
| 9. Other professional services .....  | 9,778,302   | 9,446,954                                     |                        |                |                | 281,820  |                         |                       | 49,528          | X X X               |
| 10. Outside referrals .....   |             |   |                        |                |                |  |                         |                       |                 | X X X               |
| 11. Emergency room and out-of-area .....  | 15,053,188  | 14,543,094                                    |                        |                |                | 433,848  |                         |                       | 76,246          | X X X               |
| 12. Prescription drugs .....  | 30,335,079  | 29,319,734                                    |                        |                |                | 953,839  |                         |                       | 61,506          | X X X               |
| 13. Aggregate write-ins for other hospital and medical .....                      | 247,991     | 239,516                                       |                        |                |                | 7,147  |                         |                       | 1,328           | X X X               |
| 14. Incentive pool, withhold adjustments, and bonus amounts .....                 | 4,101,836   | 4,011,156                                     |                        |                |                | 90,680   |                         |                       |                 | X X X               |
| 15. Subtotal (Line 8 through Line 14) .....                                       | 152,484,692 | 147,378,419                                   |                        |                |                | 4,446,773                                      |                         |                       | 659,500         | X X X               |
| 16. Net reinsurance recoveries .....  | 2,360,856   | 2,360,856                                     |                        |                |                |  |                         |                       |                 | X X X               |
| 17. Total hospital and medical (Line 15 minus Line 16) .....                      | 150,123,836 | 145,017,563                                   |                        |                |                | 4,446,773                                      |                         |                       | 659,500         | X X X               |
| 18. Non-health claims (net) .....   |             | X X X   | X X X                  | X X X          | X X X          | X X X  | X X X                   | X X X                 | X X X           |                     |
| 19. Claims adjustment expenses including \$ ..... cost containment expenses ..... | 3,685,460   | 3,490,416                                     |                        |                |                | 68,766   |                         |                       | 126,278         |                     |
| 20. General administrative expenses .....   | 10,603,781  | 10,044,647                                    |                        |                |                | 197,853  |                         |                       | 361,281         |                     |
| 21. Increase in reserves for accident and health contracts .....                  |             |   |                        |                |                |  |                         |                       |                 | X X X               |
| 22. Increase in reserves for life contracts .....                                 |             | X X X   | X X X                  | X X X          | X X X          | X X X  | X X X                   | X X X                 | X X X           |                     |
| 23. Total underwriting deductions (Line 17 through Line 22) .....                 | 164,413,077 | 158,552,626                                   |                        |                |                | 4,713,392                                      |                         |                       | 1,147,059       |                     |
| 24. Net underwriting gain or (loss) (Line 7 minus Line 23) .....                  | (84,664)    | 1,928,310                                     |                        |                |                | (927,731)                                      |                         |                       | (1,085,243)     |                     |
|   |             |   |                        |                |                |  |                         |                       |                 |                     |
| DETAILS OF WRITE-INS .....  |             |   |                        |                |                |  |                         |                       |                 |                     |
| 0501. ....  |             |   |                        |                |                |  |                         |                       |                 | X X X               |
| 0502. ....  |             |   |                        |                |                |  |                         |                       |                 | X X X               |
| 0503. ....  |             |   |                        |                |                |  |                         |                       |                 | X X X               |
| 0598. Summary of remaining write-ins for Line 5 from overflow page .....          |             |   |                        |                |                |  |                         |                       |                 | X X X               |
| 0599. Total (Line 0501 through Line 0503 plus Line 0598) (Line 5 above) .....     |             |   |                        |                |                |  |                         |                       |                 | X X X               |
|   |             |   |                        |                |                |  |                         |                       |                 |                     |
| 0601. ....  |             | X X X   | X X X                  | X X X          | X X X          | X X X  | X X X                   | X X X                 | X X X           |                     |
| 0602. ....  |             | X X X   | X X X                  | X X X          | X X X          | X X X  | X X X                   | X X X                 | X X X           |                     |
| 0603. ....  |             | X X X   | X X X                  | X X X          | X X X          | X X X  | X X X                   | X X X                 | X X X           |                     |
| 0698. Summary of remaining write-ins for Line 6 from overflow page .....          |             | X X X   | X X X                  | X X X          | X X X          | X X X  | X X X                   | X X X                 | X X X           |                     |
| 0699. Total (Line 0601 through Line 0603 plus Line 0698) (Line 6 above) .....     |             | X X X   | X X X                  | X X X          | X X X          | X X X  | X X X                   | X X X                 | X X X           |                     |
|   |             |   |                        |                |                |  |                         |                       |                 |                     |
| 1301. OTHER MEDICAL .....   | 247,991     | 239,516                                       |                        |                |                | 7,147  |                         |                       | 1,328           | X X X               |
| 1302. ....  |             |   |                        |                |                |  |                         |                       |                 | X X X               |
| 1303. ....  |             |   |                        |                |                |  |                         |                       |                 | X X X               |
| 1398. Summary of remaining write-ins for Line 13 from overflow page .....         |             |   |                        |                |                |  |                         |                       |                 | X X X               |
| 1399. Total (Line 1301 through Line 1303 plus Line 1398) (Line 13 above) .....    | 247,991     | 239,516                                       |                        |                |                | 7,147  |                         |                       | 1,328           | X X X               |

UNDERWRITING AND INVESTMENT EXHIBIT

Part 1 - Premiums

|  | 1               | 2                   | 3                 | 4  |
|--|-----------------|---------------------|-------------------|--|
| Line of Business                                 | Direct Business | Reinsurance Assumed | Reinsurance Ceded | Net Premium Income<br>(Column 1 plus Column 2<br>minus Column 3) |
| 1. Comprehensive (hospital and medical) .....    | 162,479,204     |                     | 1,998,268         | 160,480,936  |
| 2. Medicare Supplement .....                     |                 |                     |                   |  |
| 3. Dental only .....                             |                 |                     |                   |  |
| 4. Vision only .....                             |                 |                     |                   |  |
| 5. Federal Employees Health Benefits Plan .....  | 3,823,661       |                     | 38,000            | 3,785,661  |
| 6. Title XVIII - Medicare .....                  |                 |                     |                   |  |
| 7. Title XIX - Medicaid .....                    |                 |                     |                   |  |
| 8. Other health .....                            | 61,816          |                     |                   | 61,816   |
| 9. Health subtotal (Line 1 through Line 8) ..... | 166,364,681     |                     | 2,036,268         | 164,328,413  |
| 10. Life .....                                   |                 |                     |                   |  |
| 11. Property/casualty .....                      |                 |                     |                   |  |
| 12. Totals (Line 9 to Line 11) .....             | 166,364,681     |                     | 2,036,268         | 164,328,413  |



UNDERWRITING AND INVESTMENT EXHIBIT

PART 2 - Claims Incurred During the Year

|  | 1           | 2  | 3                      | 4              | 5              | 6  | 7                          | 8                        | 9               | 10                  |
|--|-------------|--|------------------------|----------------|----------------|--|----------------------------|--------------------------|-----------------|---------------------|
|  | Total       | Comprehensive<br>(Hospital and<br>Medical) | Medicare<br>Supplement | Dental<br>Only | Vision<br>Only | Federal Employees<br>Health Benefits<br>Plan | Title<br>XVIII<br>Medicare | Title<br>XIX<br>Medicaid | Other<br>Health | Other<br>Non-Health |
| 1. Payments during the year:                                     |             |  |                        |                |                |  |                            |                          |                 |                     |
| 1.1 Direct   | 155,187,090 | 150,729,870                                |                        |                |                | 4,127,342                                    |                            |                          | 329,878         |                     |
| 1.2 Reinsurance assumed  |             |  |                        |                |                |  |                            |                          |                 |                     |
| 1.3 Reinsurance ceded  | 853,009     | 853,009                                    |                        |                |                |  |                            |                          |                 |                     |
| 1.4 Net  | 154,334,081 | 149,876,861                                |                        |                |                | 4,127,342                                    |                            |                          | 329,878         |                     |
| 2. Paid medical incentive pools and bonuses                      | 4,541,295   | 4,420,515                                  |                        |                |                | 120,780                                      |                            |                          |                 |                     |
| 3. Claim liability December 31, current year from Part 2A:       |             |  |                        |                |                |  |                            |                          |                 |                     |
| 3.1 Direct   | 10,023,093  | 9,383,384                                  |                        |                |                | 319,432                                      |                            |                          | 320,277         |                     |
| 3.2 Reinsurance assumed  |             |  |                        |                |                |  |                            |                          |                 |                     |
| 3.3 Reinsurance ceded  |             |  |                        |                |                |  |                            |                          |                 |                     |
| 3.4 Net  | 10,023,093  | 9,383,384                                  |                        |                |                | 319,432                                      |                            |                          | 320,277         |                     |
| 4. Claim reserve December 31, current year from Part 2D:         |             |  |                        |                |                |  |                            |                          |                 |                     |
| 4.1 Direct   |             |  |                        |                |                |  |                            |                          |                 |                     |
| 4.2 Reinsurance assumed  |             |  |                        |                |                |  |                            |                          |                 |                     |
| 4.3 Reinsurance ceded  |             |  |                        |                |                |  |                            |                          |                 |                     |
| 4.4 Net  |             |  |                        |                |                |  |                            |                          |                 |                     |
| 5. Accrued medical incentive pools and bonuses, current year     | 4,064,429   | 3,973,749                                  |                        |                |                | 90,680                                       |                            |                          |                 |                     |
| 6. Net healthcare receivables (a)                                | 2,991,391   | 2,892,910                                  |                        |                |                | 98,481                                       |                            |                          |                 |                     |
| 7. Amounts recoverable from reinsurers December 31, current year | 311,445     | 311,445                                    |                        |                |                |  |                            |                          |                 |                     |
| 8. Claim liability December 31, prior year from Part 2A:         |             |  |                        |                |                |  |                            |                          |                 |                     |
| 8.1 Direct   | 13,835,934  | 13,502,083                                 |                        |                |                | 333,851                                      |                            |                          |                 |                     |
| 8.2 Reinsurance assumed  |             |  |                        |                |                |  |                            |                          |                 |                     |
| 8.3 Reinsurance ceded  |             |  |                        |                |                |  |                            |                          |                 |                     |
| 8.4 Net  | 13,835,934  | 13,502,083                                 |                        |                |                | 333,851                                      |                            |                          |                 |                     |
| 9. Claim reserve December 31, prior year from Part 2D:           |             |  |                        |                |                |  |                            |                          |                 |                     |
| 9.1 Direct   |             |  |                        |                |                |  |                            |                          |                 |                     |
| 9.2 Reinsurance assumed  |             |  |                        |                |                |  |                            |                          |                 |                     |
| 9.3 Reinsurance ceded  |             |  |                        |                |                |  |                            |                          |                 |                     |
| 9.4 Net  |             |  |                        |                |                |  |                            |                          |                 |                     |
| 10. Accrued medical incentive pools and bonuses, prior year      | 5,087,426   | 4,815,219                                  |                        |                |                | 272,207                                      |                            |                          |                 |                     |
| 11. Amounts recoverable from reinsurers December 31, prior year  | 711,832     | 711,832                                    |                        |                |                |  |                            |                          |                 |                     |
| 12. Incurred benefits:   |             |  |                        |                |                |  |                            |                          |                 |                     |
| 12.1 Direct  | 148,382,858 | 143,718,261                                |                        |                |                | 4,014,442                                    |                            |                          | 650,155         |                     |
| 12.2 Reinsurance assumed   |             |  |                        |                |                |  |                            |                          |                 |                     |
| 12.3 Reinsurance ceded   | 452,622     | 452,622                                    |                        |                |                |  |                            |                          |                 |                     |
| 12.4 Net   | 147,930,236 | 143,265,639                                |                        |                |                | 4,014,442                                    |                            |                          | 650,155         |                     |
| 13. Incurred medical incentive pools and bonuses                 | 3,518,298   | 3,579,045                                  |                        |                |                | (60,747)                                     |                            |                          |                 |                     |

(a) Excludes \$ loans or advances to providers not yet expensed

UNDERWRITING AND INVESTMENT EXHIBIT  
PART 2A - Claims Liability End of Current Year

|   | 1          | 2  | 3                      | 4              | 5              | 6  | 7                          | 8                        | 9               | 10                  |
|---|------------|--|------------------------|----------------|----------------|--|----------------------------|--------------------------|-----------------|---------------------|
|   | Total      | Comprehensive<br>(Hospital<br>and Medical) | Medicare<br>Supplement | Dental<br>Only | Vision<br>Only | Federal Employees<br>Health Benefits<br>Plan | Title<br>XVIII<br>Medicare | Title<br>XIX<br>Medicaid | Other<br>Health | Other<br>Non-Health |
| 1. Reported in Process of Adjustment:                 |            |  |                        |                |                |  |                            |                          |                 |                     |
| 1.1 Direct .....                                      |            |  |                        |                |                |  |                            |                          |                 |                     |
| 1.2 Reinsurance assumed .....                         |            |  |                        |                |                |  |                            |                          |                 |                     |
| 1.3 Reinsurance ceded .....                           |            |  |                        |                |                |  |                            |                          |                 |                     |
| 1.4 Net .....   |            |  |                        |                |                |  |                            |                          |                 |                     |
| 2. Incurred but Unreported:                           |            |  |                        |                |                |  |                            |                          |                 |                     |
| 2.1 Direct .....                                      | 10,023,093 | 9,383,384                                  |                        |                |                | 319,432                                      |                            |                          | 320,277         |                     |
| 2.2 Reinsurance assumed .....                         |            |  |                        |                |                |  |                            |                          |                 |                     |
| 2.3 Reinsurance ceded .....                           |            |  |                        |                |                |  |                            |                          |                 |                     |
| 2.4 Net .....   | 10,023,093 | 9,383,384                                  |                        |                |                | 319,432                                      |                            |                          | 320,277         |                     |
| 3. Amounts Withheld from Paid Claims and Capitations: |            |  |                        |                |                |  |                            |                          |                 |                     |
| 3.1 Direct .....                                      |            |  |                        |                |                |  |                            |                          |                 |                     |
| 3.2 Reinsurance assumed .....                         |            |  |                        |                |                |  |                            |                          |                 |                     |
| 3.3 Reinsurance ceded .....                           |            |  |                        |                |                |  |                            |                          |                 |                     |
| 3.4 Net .....   |            |  |                        |                |                |  |                            |                          |                 |                     |
| 4. TOTALS:  |            |  |                        |                |                |  |                            |                          |                 |                     |
| 4.1 Direct .....                                      | 10,023,093 | 9,383,384                                  |                        |                |                | 319,432                                      |                            |                          | 320,277         |                     |
| 4.2 Reinsurance assumed .....                         |            |  |                        |                |                |  |                            |                          |                 |                     |
| 4.3 Reinsurance ceded .....                           |            |  |                        |                |                |  |                            |                          |                 |                     |
| 4.4 Net .....   | 10,023,093 | 9,383,384                                  |                        |                |                | 319,432                                      |                            |                          | 320,277         |                     |

UNDERWRITING AND INVESTMENT EXHIBIT  
PART 2B - ANALYSIS OF CLAIMS UNPAID - PRIOR YEAR - NET OF REINSURANCE

| Line of Business  | Claims Paid During the Year                                   |   | Claim Reserve and Claim Liability December 31 of Current Year |   | 5  | 6  |
|---|---|---|---|---|--|--|
|   | 1<br>On Claims Incurred Prior to<br>January 1 of Current Year | 2<br>On Claims Incurred During the Year | 3<br>On Claims Unpaid December 31 of<br>Prior Year            | 4<br>On Claims Incurred During the Year | Claims Incurred in Prior Years<br>(Column 1 plus Column 3) | Estimated Claim Reserve and Claim<br>Liability December 31 of Prior Year |
| 1. Comprehensive (hospital and medical) .....                     | 6,790,447   | 143,855,348                             | 93,552  | 9,929,541                               | 6,883,999  | 13,835,934   |
| 2. Medicare Supplement .....                                      |   |   |   |   |  |  |
| 3. Dental Only .....  |   |   |   |   |  |  |
| 4. Vision Only .....  |   |   |   |   |  |  |
| 5. Federal Employees Health Benefits Plan .....                   |   |   |   |   |  |  |
| 6. Title XVIII - Medicare .....                                   |   |   |   |   |  |  |
| 7. Title XIX - Medicaid .....                                     |   |   |   |   |  |  |
| 8. Other health .....   |   |   |   |   |  |  |
| 9. Health subtotal (Line 1 through Line 8) .....                  | 6,790,447   | 143,855,348                             | 93,552  | 9,929,541                               | 6,883,999  | 13,835,934   |
| 10. Healthcare receivables (a) .....                              | 7,959   | 2,053,247                               |   |   | 7,959  | 1,833,792  |
| 11. Other non-health .....  |   |   |   |   |  |  |
| 12. Medical incentive pools and bonus amounts .....               | 4,541,295   |   | 145,154   | 3,919,275                               | 4,686,449  | 5,087,426  |
| 13. Totals (Line 9 minus Line 10 plus Line 11 plus Line 12) ..... | 11,323,783  | 141,802,101                             | 238,706   | 13,848,816                              | 11,562,489   | 17,089,568   |

(a) Excludes \$ ..... loans or advances to providers not yet expensed.

UNDERWRITING AND INVESTMENT EXHIBIT  
PART 2C - DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS  
(000 Omitted)

Section A - Paid Health Claims - Comprehensive (Hospital and Medical)

| Year in Which Losses Were Incurred | Cumulative Net Amounts Paid |           |           |           |           |
|------------------------------------|-----------------------------|-----------|-----------|-----------|-----------|
|                                    | 1<br>2006                   | 2<br>2007 | 3<br>2008 | 4<br>2009 | 5<br>2010 |
| 1. Prior .....                     | 15,095                      |           |           | 14        |           |
| 2. 2006 .....                      | 173,764                     | 19,967    | 63        | 344       |           |
| 3. 2007 .....                      | X X X                       | 154,497   | 20,982    | 11,045    | (93)      |
| 4. 2008 .....                      | X X X                       | X X X     | 124,102   | 140,715   | 36        |
| 5. 2009 .....                      | X X X                       | X X X     | X X X     | 122,562   | 6,532     |
| 6. 2010 .....                      | X X X                       | X X X     | X X X     | X X X     | 140,043   |

Section B - Incurred Health Claims - Comprehensive (Hospital and Medical)

| Year in Which Losses Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year |           |           |           |           |
|------------------------------------|--|-----------|-----------|-----------|-----------|
|                                    | 1<br>2006  | 2<br>2007 | 3<br>2008 | 4<br>2009 | 5<br>2010 |
| 1. Prior .....                     | 176,441  | 176,441   | 176,441   | 176,441   | 176,441   |
| 2. 2006 .....                      | 197,906  | 197,906   | 197,970   | 197,970   | 197,970   |
| 3. 2007 .....                      | X X X  | 180,449   | 185,085   | 185,103   | 185,010   |
| 4. 2008 .....                      | X X X  | X X X     | 186,416   | 181,529   | 181,569   |
| 5. 2009 .....                      | X X X  | X X X     | X X X     | 166,985   | 173,600   |
| 6. 2010 .....                      | X X X  | X X X     | X X X     | X X X     | 159,876   |

Section C - Incurred Year Health Claims and Claims Adjustment Expense Ratio - Comprehensive (Hospital and Medical)

| Years in Which Premiums<br>Were Earned and Claims<br>Were Incurred | 1<br>Premiums Earned | 2<br>Claims Payments | 3<br>Claim Adjustment<br>Expense Payments | 4<br>(Column 3<br>divided by<br>Column 2)<br>Percent | 5<br>Claim and Claim<br>Adjustment Expense<br>Payments<br>(Columns 2 + 3) | 6<br>(Column 5<br>divided by<br>Column 1)<br>Percent | 7<br>Claims Unpaid | 8<br>Unpaid Claims<br>Adjustment Expenses | 9<br>Total Claims and<br>Claims Adjustment<br>Expense Incurred<br>(Columns 5 + 7 + 8) | 10<br>(Column 9<br>divided by<br>Column 1)<br>Percent |
|--|----------------------|----------------------|---|--|---|--|--------------------|---|---|---|
| 1. 2006 .....  | 230,421              | 176,764              | 5,217                                     | 2.951  | 181,981   | 78.978   |                    |   | 181,981   | 78.978  |
| 2. 2007 .....  | 207,452              | 180,449              | 4,887                                     | 2.708  | 185,336   | 89.339   |                    |   | 185,336   | 89.339  |
| 3. 2008 .....  | 175,118              | 142,757              | 4,864                                     | 3.407  | 147,621   | 84.298   |                    |   | 147,621   | 84.298  |
| 4. 2009 .....  | 175,928              | 148,647              | 4,072                                     | 2.739  | 152,719   | 86.808   | 93                 |   | 152,812   | 86.861  |
| 5. 2010 .....  | 162,479              | 146,189              | 3,622                                     | 2.478  | 149,811   | 92.203   | 13,345             | 131                                       | 163,287   | 100.497   |

UNDERWRITING AND INVESTMENT EXHIBIT  
PART 2C - DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS  
(000 Omitted)

Section A - Paid Health Claims - Federal Employees Health Benefit Plan

| Year in Which Losses Were Incurred | Cumulative Net Amounts Paid |           |           |           |           |
|------------------------------------|-----------------------------|-----------|-----------|-----------|-----------|
|                                    | 1<br>2006                   | 2<br>2007 | 3<br>2008 | 4<br>2009 | 5<br>2010 |
| 1. Prior .....                     |                             |           |           |           |           |
| 2. 2006 .....                      |                             |           |           |           |           |
| 3. 2007 .....                      | X X X                       |           |           |           |           |
| 4. 2008 .....                      | X X X                       | X X X     | 2,083     | 152       |           |
| 5. 2009 .....                      | X X X                       | X X X     | X X X     | 3,623     | 315       |
| 6. 2010 .....                      | X X X                       | X X X     | X X X     | X X X     | 3,812     |

Section B - Incurred Health Claims - Federal Employees Health Benefit Plan

| Year in Which Losses Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability , Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year |           |           |           |           |
|------------------------------------|---|-----------|-----------|-----------|-----------|
|                                    | 1<br>2006   | 2<br>2007 | 3<br>2008 | 4<br>2009 | 5<br>2010 |
| 1. Prior .....                     |   |           |           |           |           |
| 2. 2006 .....                      |   |           |           |           |           |
| 3. 2007 .....                      | X X X   |           |           |           |           |
| 4. 2008 .....                      | X X X   | X X X     | 2,093     | 2,246     | 2,246     |
| 5. 2009 .....                      | X X X   | X X X     | X X X     | 4,208     | 4,524     |
| 6. 2010 .....                      | X X X   | X X X     | X X X     | X X X     | 4,537     |

Section C - Incurred Year Health Claims and Claims Adjustment Expense Ratio - Federal Employees Health Benefit Plan

| Years in Which Premiums<br>Were Earned and Claims<br>Were Incurred | 1<br>Premiums Earned | 2<br>Claims Payments | 3<br>Claim Adjustment<br>Expense Payments | 4<br>(Column 3<br>divided by<br>Column 2)<br>Percent | 5<br>Claim and Claim<br>Adjustment Expense<br>Payments<br>(Columns 2 + 3) | 6<br>(Column 5<br>divided by<br>Column 1)<br>Percent | 7<br>Claims Unpaid | 8<br>Unpaid Claims<br>Adjustment Expenses | 9<br>Total Claims and<br>Claims Adjustment<br>Expense Incurred<br>(Columns 5 + 7 + 8) | 10<br>(Column 9<br>divided by<br>Column 1)<br>Percent |
|--|----------------------|----------------------|---|--|---|--|--------------------|---|---|---|
| 1. 2006 .....  |                      |                      |   |  |   |  |                    |   |   |   |
| 2. 2007 .....  |                      |                      |   |  |   |  |                    |   |   |   |
| 3. 2008 .....  | 2,334                | 2,083                | 75  | 3.601  | 2,158   | 92.459   |                    |   | 2,158   | 92.459  |
| 4. 2009 .....  | 4,414                | 3,623                | 95  | 2.622  | 3,718   | 84.232   |                    |   | 3,718   | 84.232  |
| 5. 2010 .....  | 3,824                | 4,127                | 52  | 1.260  | 4,179   | 109.283  | 319                | 17  | 4,515   | 118.070   |

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS

(000 Omitted)

Section A - Paid Health Claims - Other

| Year in Which Losses Were Incurred | Cumulative Net Amounts Paid |           |           |           |           |
|------------------------------------|-----------------------------|-----------|-----------|-----------|-----------|
|                                    | 1<br>2006                   | 2<br>2007 | 3<br>2008 | 4<br>2009 | 5<br>2010 |
| 1. Prior .....                     |                             |           |           |           |           |
| 2. 2006 .....                      |                             |           |           |           |           |
| 3. 2007 .....                      | X X X                       |           |           |           |           |
| 4. 2008 .....                      | X X X                       | X X X     |           |           |           |
| 5. 2009 .....                      | X X X                       | X X X     | X X X     |           |           |
| 6. 2010 .....                      | X X X                       | X X X     | X X X     | X X X     | 330       |

Section B - Incurred Health Claims - Other

| Year in Which Losses Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability , Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year |           |           |           |           |
|------------------------------------|---|-----------|-----------|-----------|-----------|
|                                    | 1<br>2006   | 2<br>2007 | 3<br>2008 | 4<br>2009 | 5<br>2010 |
| 1. Prior .....                     |   |           |           |           |           |
| 2. 2006 .....                      |   |           |           |           |           |
| 3. 2007 .....                      | X X X   |           |           |           |           |
| 4. 2008 .....                      | X X X   | X X X     |           |           |           |
| 5. 2009 .....                      | X X X   | X X X     | X X X     |           |           |
| 6. 2010 .....                      | X X X   | X X X     | X X X     | X X X     | 320       |

Section C - Incurred Year Health Claims and Claims Adjustment Expense Ratio - Other

| Years in Which Premiums<br>Were Earned and Claims<br>Were Incurred | 1<br>Premiums Earned | 2<br>Claims Payments | 3<br>Claim Adjustment<br>Expense Payments | 4<br>(Column 3<br>divided by<br>Column 2)<br>Percent | 5<br>Claim and Claim<br>Adjustment Expense<br>Payments<br>(Columns 2 + 3) | 6<br>(Column 5<br>divided by<br>Column 1)<br>Percent | 7<br>Claims Unpaid | 8<br>Unpaid Claims<br>Adjustment Expenses | 9<br>Total Claims and<br>Claims Adjustment<br>Expense Incurred<br>(Columns 5 + 7 + 8) | 10<br>(Column 9<br>divided by<br>Column 1)<br>Percent |
|--|----------------------|----------------------|---|--|---|--|--------------------|---|---|---|
| 1. 2006 .....  |                      |                      |   |  |   |  |                    |   |   |   |
| 2. 2007 .....  |                      |                      |   |  |   |  |                    |   |   |   |
| 3. 2008 .....  |                      |                      |   |  |   |  |                    |   |   |   |
| 4. 2009 .....  |                      |                      |   |  |   |  |                    |   |   |   |
| 5. 2010 .....  | 62                   | 330                  | 95  | 28.788   | 425   | 685.484  | 330                | 31  | 786   | 1,267.742   |

UNDERWRITING AND INVESTMENT EXHIBIT  
PART 2C - DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS  
(000 Omitted)

Section A - Paid Health Claims - Grand Total

| Year in Which Losses Were Incurred | Cumulative Net Amounts Paid |           |           |           |           |
|------------------------------------|-----------------------------|-----------|-----------|-----------|-----------|
|                                    | 1<br>2006                   | 2<br>2007 | 3<br>2008 | 4<br>2009 | 5<br>2010 |
| 1. Prior .....                     | 15,095                      |           |           | 14        |           |
| 2. 2006 .....                      | 173,764                     | 19,967    | 63        | 344       |           |
| 3. 2007 .....                      | X X X                       | 154,497   | 20,982    | 11,045    | (93)      |
| 4. 2008 .....                      | X X X                       | X X X     | 126,185   | 140,867   | 36        |
| 5. 2009 .....                      | X X X                       | X X X     | X X X     | 126,185   | 6,847     |
| 6. 2010 .....                      | X X X                       | X X X     | X X X     | X X X     | 144,185   |

Section B - Incurred Health Claims - Grand Total

| Year in Which Losses Were Incurred | Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year |           |           |           |           |
|------------------------------------|--|-----------|-----------|-----------|-----------|
|                                    | 1<br>2006  | 2<br>2007 | 3<br>2008 | 4<br>2009 | 5<br>2010 |
| 1. Prior .....                     | 176,441  | 176,441   | 176,441   | 176,441   | 176,441   |
| 2. 2006 .....                      | 197,906  | 197,906   | 197,970   | 197,970   | 197,970   |
| 3. 2007 .....                      | X X X  | 180,449   | 185,085   | 185,103   | 185,010   |
| 4. 2008 .....                      | X X X  | X X X     | 188,509   | 183,775   | 183,815   |
| 5. 2009 .....                      | X X X  | X X X     | X X X     | 171,193   | 178,124   |
| 6. 2010 .....                      | X X X  | X X X     | X X X     | X X X     | 164,733   |

Section C - Incurred Year Health Claims and Claims Adjustment Expense Ratio - Grand Total

| Years in Which Premiums<br>Were Earned and Claims<br>Were Incurred | 1<br>Premiums Earned | 2<br>Claims Payments | 3<br>Claim Adjustment<br>Expense Payments | 4<br>(Column 3<br>divided by<br>Column 2)<br>Percent | 5<br>Claim and Claim<br>Adjustment Expense<br>Payments<br>(Columns 2 + 3) | 6<br>(Column 5<br>divided by<br>Column 1)<br>Percent | 7<br>Claims Unpaid | 8<br>Unpaid Claims<br>Adjustment Expenses | 9<br>Total Claims and<br>Claims Adjustment<br>Expense Incurred<br>(Columns 5 + 7 + 8) | 10<br>(Column 9<br>divided by<br>Column 1)<br>Percent |
|--|----------------------|----------------------|---|--|---|--|--------------------|---|---|---|
| 1. 2006 .....  | 230,421              | 176,764              | 5,217                                     | 2.951  | 181,981   | 78.978   |                    |   | 181,981   | 78.978  |
| 2. 2007 .....  | 207,452              | 180,449              | 4,887                                     | 2.708  | 185,336   | 89.339   |                    |   | 185,336   | 89.339  |
| 3. 2008 .....  | 177,452              | 144,840              | 4,939                                     | 3.410  | 149,779   | 84.405   |                    |   | 149,779   | 84.405  |
| 4. 2009 .....  | 180,342              | 152,270              | 4,167                                     | 2.737  | 156,437   | 86.745   | 93                 |   | 156,530   | 86.796  |
| 5. 2010 .....  | 166,365              | 150,646              | 3,769                                     | 2.502  | 154,415   | 92.817   | 13,994             | 179                                       | 168,588   | 101.336   |

UNDERWRITING AND INVESTMENT EXHIBIT  
PART 2D - AGGREGATE RESERVE FOR ACCIDENT AND HEALTH CONTRACTS ONLY

|  | 1     | 2  | 3                      | 4              | 5              | 6  | 7                          | 8                        | 9     |
|--|-------|--|------------------------|----------------|----------------|--|----------------------------|--------------------------|-------|
|  | Total | Comprehensive<br>(Hospital and<br>Medical) | Medicare<br>Supplement | Dental<br>Only | Vision<br>Only | Federal<br>Employees<br>Health<br>Benefit Plan | Title<br>XVIII<br>Medicare | Title<br>XIX<br>Medicaid | Other |
| POLICY RESERVE   |       |  |                        |                |                |  |                            |                          |       |
| 1. Unearned premium reserves   |       |  |                        |                |                |  |                            |                          |       |
| 2. Additional policy reserves (a)  |       |  |                        |                |                |  |                            |                          |       |
| 3. Reserve for future contingent benefits  |       |  |                        |                |                |  |                            |                          |       |
| 4. Reserve for rate credits or experience rating refunds<br>(including \$ for investment income) |       |  |                        |                |                |  |                            |                          |       |
| 5. Aggregate write-ins for other policy reserves   |       |  |                        |                |                |  |                            |                          |       |
| 6. Totals (gross)  |       |  |                        |                |                |  |                            |                          |       |
| 7. Reinsurance ceded   |       |  |                        |                |                |  |                            |                          |       |
| 8. Totals (Net) (Page 3, Line 4)   |       |  |                        |                |                |  |                            |                          |       |
| CLAIM RESERVE  |       |  |                        |                |                |  |                            |                          |       |
| 9. Present value of amounts not yet due on claims  |       |  |                        |                |                |  |                            |                          |       |
| 10. Reserve for future contingent benefits   |       |  |                        |                |                |  |                            |                          |       |
| 11. Aggregate write-ins for other claim reserves   |       |  |                        |                |                |  |                            |                          |       |
| 12. Totals (gross)   |       |  |                        |                |                |  |                            |                          |       |
| 13. Reinsurance ceded  |       |  |                        |                |                |  |                            |                          |       |
| 14. Totals (Net) (Page 3, Line 7)  |       |  |                        |                |                |  |                            |                          |       |
| DETAILS OF WRITE-INS   |       |  |                        |                |                |  |                            |                          |       |
| 0501.  |       |  |                        |                |                |  |                            |                          |       |
| 0502.  |       |  |                        |                |                |  |                            |                          |       |
| 0503.  |       |  |                        |                |                |  |                            |                          |       |
| 0598. Summary of remaining write-ins for Line 5 from overflow page                               |       |  |                        |                |                |  |                            |                          |       |
| 0599. Totals (Line 0501 through Line 0503 plus Line 0598) (Line 5 above)                         |       |  |                        |                |                |  |                            |                          |       |
| 1101.  |       |  |                        |                |                |  |                            |                          |       |
| 1102.  |       |  |                        |                |                |  |                            |                          |       |
| 1103.  |       |  |                        |                |                |  |                            |                          |       |
| 1198. Summary of remaining write-ins for Line 11 from overflow page                              |       |  |                        |                |                |  |                            |                          |       |
| 1199. Totals (Line 1101 through Line 1103 plus Line 1198) (Line 11 above)                        |       |  |                        |                |                |  |                            |                          |       |

(a) Includes \$ premium deficiency reserve.



UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 - ANALYSIS OF EXPENSES

|   | Claim Adjustment Expenses |                                 | 3                               | 4                   | 5              |
|---|---------------------------|---------------------------------|---------------------------------|---------------------|----------------|
|   | 1                         | 2                               |                                 |                     |                |
|   | Cost Containment Expenses | Other Claim Adjustment Expenses | General Administrative Expenses | Investment Expenses | Total          |
| 1. Rent (\$ ..... for occupancy of own building) .....  | 86,346                    | 40,633                          | 363,287                         |                     | 490,266        |
| 2. Salaries, wages and other benefits .....   | 922,743                   | 434,232                         | 3,882,312                       |                     | 5,239,287      |
| 3. Commissions (less \$ ..... ceded plus \$ ..... assumed) .....                              | 301,546                   | 141,904                         | 1,268,713                       |                     | 1,712,163      |
| 4. Legal fees and expenses .....  | 23,802                    | 11,201                          | 100,142                         |                     | 135,145        |
| 5. Certifications and accreditation fees .....  |                           |                                 |                                 |                     |                |
| 6. Auditing, actuarial and other consulting services .....                                    | 109,627                   | 51,589                          | 461,239                         |                     | 622,455        |
| 7. Traveling expenses .....   | 13,707                    | 6,450                           | 57,670                          |                     | 77,827         |
| 8. Marketing and advertising .....  | 147,518                   | 69,420                          | 620,661                         |                     | 837,599        |
| 9. Postage, express, and telephone .....  | 24,432                    | 11,497                          | 102,795                         |                     | 138,724        |
| 10. Printing and office supplies .....  | 54,112                    | 25,464                          | 227,668                         |                     | 307,244        |
| 11. Occupancy, depreciation and amortization .....  | 48,628                    | 22,884                          | 204,594                         |                     | 276,106        |
| 12. Equipment .....   | 14,603                    | 6,872                           | 61,442                          |                     | 82,917         |
| 13. Cost or depreciation of EDP equipment and software .....                                  |                           |                                 |                                 |                     |                |
| 14. Outsourced services including EDP, claims, and other services .....                       | 611,151                   | 287,600                         | 2,571,330                       |                     | 3,470,081      |
| 15. Boards, bureaus and association fees .....  | 29,952                    | 14,095                          | 126,018                         |                     | 170,065        |
| 16. Insurance, except on real estate .....  | 15,304                    | 7,202                           | 64,391                          |                     | 86,897         |
| 17. Collection and bank service charges .....   | (3,808)                   | (1,792)                         | (16,021)                        |                     | (21,621)       |
| 18. Group service and administration fees .....   |                           |                                 |                                 |                     |                |
| 19. Reimbursements by uninsured accident and health plans .....                               |                           |                                 |                                 |                     |                |
| 20. Reimbursements from fiscal intermediaries .....   |                           |                                 |                                 |                     |                |
| 21. Real estate expenses .....  |                           |                                 |                                 |                     |                |
| 22. Real estate taxes .....   | 4,605                     | 2,167                           | 19,374                          |                     | 26,146         |
| 23. Taxes, licenses and fees:   |                           |                                 |                                 |                     |                |
| 23.1 State and local insurance taxes .....  | 6,390                     | 3,007                           | 26,884                          |                     | 36,281         |
| 23.2 State premium taxes .....  |                           |                                 |                                 |                     |                |
| 23.3 Regulator authority licenses and fees .....  |                           |                                 |                                 |                     |                |
| 23.4 Payroll taxes .....  | 95,456                    | 44,920                          | 401,616                         |                     | 541,992        |
| 23.5 Other (excluding federal income and real estate taxes) .....                             |                           |                                 |                                 |                     |                |
| 24. Investment expenses not included elsewhere .....  |                           |                                 |                                 | 5,321               | 5,321          |
| 25. Aggregate write-ins for expenses .....  | 10,508                    | 4,945                           | 44,212                          |                     | 59,665         |
| 26. Total expenses incurred (Line 1 to Line 25) .....   | 2,516,622                 | 1,184,290                       | 10,588,327                      | 5,321               | (a) 14,294,560 |
| 27. Less expenses unpaid December 31, current year .....                                      | 121,999                   | 57,411                          | 3,217,915                       |                     | 3,397,325      |
| 28. Add expenses unpaid December 31, prior year .....   | 178,477                   | 83,989                          | 2,596,611                       |                     | 2,859,077      |
| 29. Amounts receivable relating to uninsured accident and health plans, prior year .....      |                           |                                 |                                 |                     |                |
| 30. Amounts receivable relating to uninsured accident and health plans, current year .....    |                           |                                 |                                 |                     |                |
| 31. Total expenses paid (Line 26 minus Line 27 plus Line 28 minus Line 29 plus Line 30) ..... | 2,573,100                 | 1,210,868                       | 9,967,023                       | 5,321               | 13,756,312     |
| DETAILS OF WRITE-INS  |                           |                                 |                                 |                     |                |
| 2501. OTHER PROFESSIONAL FEES .....   | 10,508                    | 4,945                           | 44,212                          |                     | 59,665         |
| 2502. ....  |                           |                                 |                                 |                     |                |
| 2503. ....  |                           |                                 |                                 |                     |                |
| 2598. Summary of remaining write-ins for Line 25 from overflow page .....                     |                           |                                 |                                 |                     |                |
| 2599. Totals (Line 2501 through Line 2503 plus Line 2598) (Line 25 above) .....               | 10,508                    | 4,945                           | 44,212                          |                     | 59,665         |

(a) Includes management fees of \$ ..... to affiliates and \$ ..... to non-affiliates.

EXHIBIT OF NET INVESTMENT INCOME

|  | 1   | 2                     |
|--|---|-----------------------|
|  | Collected<br>During Year  | Earned<br>During Year |
| 1. U. S. Government bonds  | (a)   |                       |
| 1.1 Bonds exempt from U. S. tax  | (a)   |                       |
| 1.2 Other bonds (unaffiliated)   | (a)   |                       |
| 1.3 Bonds of affiliates  | (a)   |                       |
| 2.1 Preferred stocks (unaffiliated)  | (b)   |                       |
| 2.11 Preferred stocks of affiliates  | (b)   |                       |
| 2.2 Common stocks (unaffiliated)   |   |                       |
| 2.21 Common stocks of affiliates   | 67,659  | 67,659                |
| 3. Mortgage loans  | (c)   |                       |
| 4. Real estate   | (d)   |                       |
| 5. Contract loans  |   |                       |
| 6. Cash, cash equivalents and short-term investments   | (e) 234,173   | 234,173               |
| 7. Derivative instruments  | (f)   |                       |
| 8. Other invested assets   |   |                       |
| 9. Aggregate write-ins for investment income   |   |                       |
| 10. Total gross investment income  | 301,832   | 301,832               |
| 11. Investment expenses  |   | (g) 5,321             |
| 12. Investment taxes, licenses and fees, excluding federal income taxes  |   | (g)                   |
| 13. Interest expense   |   | (h)                   |
| 14. Depreciation on real estate and other invested assets  |   | (i)                   |
| 15. Aggregate write-ins for deductions from investment income  |   |                       |
| 16. Totals deductions (Line 11 through Line 15)  |   | 5,321                 |
| 17. Net investment income (Line 10 minus Line 16)  |   | 296,511               |
| DETAILS OF WRITE-INS   |   |                       |
| 0901.  |   |                       |
| 0902.  |   |                       |
| 0903.  |   |                       |
| 0998. Summary of remaining write-ins for Line 9 from overflow page   |   |                       |
| 0999. Totals (Line 0901 through Line 0903 plus Line 0998) (Line 9 above)   |   |                       |
| 1501.  |   |                       |
| 1502.  |   |                       |
| 1503.  |   |                       |
| 1598. Summary of remaining write-ins for Line 15 from overflow page  |   |                       |
| 1599. Totals (Line 1501 through Line 1503 plus Line 1598) (Line 15 above)  |   |                       |
| (a) Includes \$ ..... accrual of discount less \$ ..... amortization of premium and less \$ ..... paid for accrued interest on purchases.  | (f) Includes \$ ..... accrual of discount less \$ ..... amortization of premium.  |                       |
| (b) Includes \$ ..... accrual of discount less \$ ..... amortization of premium and less \$ ..... paid for accrued dividends on purchases. | (g) Includes \$ ..... investment expenses and \$ ..... investment taxes, licenses and fees, excluding federal income taxes, attributable to segregated and Separate Accounts. |                       |
| (c) Includes \$ ..... accrual of discount less \$ ..... amortization of premium and less \$ ..... paid for accrued interest on purchases.  | (h) Includes \$ ..... interest on surplus notes and \$ ..... interest on capital notes.   |                       |
| (d) Includes \$ ..... for company's occupancy of its own buildings; and excludes \$ ..... interest on encumbrances.                        | (i) Includes \$ ..... depreciation on real estate and \$ ..... depreciation on other invested assets.   |                       |
| (e) Includes \$ ..... accrual of discount less \$ ..... amortization of premium and less \$ ..... paid for accrued interest on purchases.  |   |                       |

EXHIBIT OF CAPITAL GAINS (LOSSES)

|  | 1   | 2                             | 3   | 4   | 5   |
|--|---|-------------------------------|---|---|---|
|  | Realized Gain<br>(Loss) on Sales<br>or Maturity | Other Realized<br>Adjustments | Total Realized<br>Capital Gain<br>(Loss)<br>(Cols. 1 + 2) | Change in<br>Unrealized<br>Capital Gain<br>(Loss) | Change in<br>Unrealized<br>Foreign Exchange<br>Capital Gain<br>(Loss) |
| 1. U. S. Government bonds  |   |                               |   |   |   |
| 1.1 Bonds exempt from U. S. tax  |   |                               |   |   |   |
| 1.2 Other bonds (unaffiliated)   |   |                               |   |   |   |
| 1.3 Bonds of affiliates  |   |                               |   |   |   |
| 2.1 Preferred stocks (unaffiliated)                                      |   |                               |   |   |   |
| 2.11 Preferred stocks of affiliates                                      |   |                               |   |   |   |
| 2.2 Common stocks (unaffiliated)   | 94,277  |                               | 94,277  | 2,611,023<br>(2,819,591)                          |   |
| 2.21 Common stocks of affiliates   |   |                               |   |   |   |
| 3. Mortgage loans  |   |                               |   |   |   |
| 4. Real estate   |   |                               |   |   |   |
| 5. Contract loans  |   |                               |   |   |   |
| 6. Cash, cash equivalents and short-term investments                     |   |                               |   |   |   |
| 7. Derivative instruments  |   |                               |   |   |   |
| 8. Other invested assets   |   |                               |   | (271,198)   |   |
| 9. Aggregate write-ins for capital gains (losses)                        |   |                               |   | (993,647)   |   |
| 10. Total capital gains (losses)   | 94,277  |                               | 94,277  | (1,473,413)                                       |   |
| DETAILS OF WRITE-INS   |   |                               |   |   |   |
| 0901. UNREALIZED INVESTMENT IN AFFILIATE                                 |   |                               |   | (993,647)   |   |
| 0902.  |   |                               |   |   |   |
| 0903.  |   |                               |   |   |   |
| 0998. Summary of remaining write-ins for Line 9 from overflow page       |   |                               |   |   |   |
| 0999. Totals (Line 0901 through Line 0903 plus Line 0998) (Line 9 above) |   |                               |   | (993,647)   |   |

EXHIBIT OF NONADMITTED ASSETS

|   | 1  | 2                                      | 3  |
|---|--|--|--|
|   | Current Year Total<br>Nonadmitted Assets | Prior Year Total<br>Nonadmitted Assets | Change in Total<br>Nonadmitted Assets<br>(Col. 2 - Col. 1) |
| 1. Bonds (Schedule D) .....   |  |  |  |
| 2. Stocks (Schedule D): .....   |  |  |  |
| 2.1 Preferred stocks .....  |  |  |  |
| 2.2 Common stocks .....   | 150,410                                  | 10,386                                 | (140,024)  |
| 3. Mortgage loans on real estate (Schedule B): .....  |  |  |  |
| 3.1 First liens .....   |  |  |  |
| 3.2 Other than first liens .....  |  |  |  |
| 4. Real estate (Schedule A): .....  |  |  |  |
| 4.1 Properties occupied by the company .....  |  |  |  |
| 4.2 Properties held for the production of income .....  |  |  |  |
| 4.3 Properties held for sale .....  |  |  |  |
| 5. Cash (Schedule E-Part 1) , cash equivalents (Schedule E-Part 2) and short-term investments (Schedule DA) .....           |  |  |  |
| 6. Contract loans .....   |  |  |  |
| 7. Derivatives .....  |  |  |  |
| 8. Other invested assets (Schedule BA) .....  | 64,576                                   | 196,260                                | 131,684  |
| 9. Receivable for securities .....  |  |  |  |
| 10. Securities lending reinvested collateral assets .....   |  |  |  |
| 11. Aggregate write-ins for invested assets .....   |  |  |  |
| 12. Subtotals, cash and invested assets (Line 1 to Line 11) .....   | 214,986                                  | 206,646                                | (8,340)  |
| 13. Title plants (for Title insurers only) .....  |  |  |  |
| 14. Investment income due and accrued .....   |  |  |  |
| 15. Premiums and considerations: .....  |  |  |  |
| 15.1 Uncollected premiums and agents' balances in the course of collection .....  |  |  |  |
| 15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due .....                         |  |  |  |
| 15.3 Accrued retrospective premiums .....   |  |  |  |
| 16. Reinsurance: .....  |  |  |  |
| 16.1 Amounts recoverable from reinsurers .....  |  |  |  |
| 16.2 Funds held by or deposited with reinsured companies .....  |  |  |  |
| 16.3 Other amounts receivable under reinsurance contracts .....   |  |  |  |
| 17. Amounts receivable relating to uninsured plans .....  |  |  |  |
| 18.1 Current federal and foreign income tax recoverable and interest thereon .....  |  |  |  |
| 18.2 Net deferred tax asset .....   |  |  |  |
| 19. Guaranty funds receivable or on deposit .....   |  |  |  |
| 20. Electronic data processing equipment and software .....   | 5,688,519                                | 7,637,060                              | 1,948,541  |
| 21. Furniture and equipment, including health care delivery assets .....  | 98,024                                   | 150,552                                | 52,528   |
| 22. Net adjustment in assets and liabilities due to foreign exchange rates .....  |  |  |  |
| 23. Receivable from parent, subsidiaries and affiliates .....   | 1,631,991                                | 10,041                                 | (1,621,950)  |
| 24. Health care and other amounts receivable .....  | 1,111,043                                | 471,164                                | (639,879)  |
| 25. Aggregate write-ins for other than invested assets .....  | 634,726                                  | 388,656                                | (246,070)  |
| 26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts<br>(Line 12 to Line 25) ..... | 9,379,289                                | 8,864,119                              | (515,170)  |
| 27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts .....   |  |  |  |
| 28. Total (Line 26 and Line 27) .....   | 9,379,289                                | 8,864,119                              | (515,170)  |
| DETAILS OF WRITE-INS .....  |  |  |  |
| 1101. ....  |  |  |  |
| 1102. ....  |  |  |  |
| 1103. ....  |  |  |  |
| 1198. Summary of remaining write-ins for Line 11 from overflow page .....   |  |  |  |
| 1199. Totals (Line 1101 through Line 1103 plus Line 1198) (Line 11 above) .....   |  |  |  |
| 2501. PREPAIDS .....  | 634,726                                  | 388,656                                | (246,070)  |
| 2502. ....  |  |  |  |
| 2503. ....  |  |  |  |
| 2598. Summary of remaining write-ins for Line 25 from overflow page .....   |  |  |  |
| 2599. Totals (Line 2501 through Line 2503 plus Line 2598) (Line 25 above) .....   | 634,726                                  | 388,656                                | (246,070)  |

EXHIBIT 1 - ENROLLMENT BY PRODUCT TYPE FOR HEALTH BUSINESS ONLY

| Source of Enrollment   | Total Members at End of |                           |                            |                           |                          | 6<br><br>Current Year<br>Member<br>Months |
|--|-------------------------|---------------------------|----------------------------|---------------------------|--------------------------|---|
|  | 1<br><br>Prior<br>Year  | 2<br><br>First<br>Quarter | 3<br><br>Second<br>Quarter | 4<br><br>Third<br>Quarter | 5<br><br>Current<br>Year |   |
| 1. Health Maintenance Organizations .....                                      | 40,048                  | 36,718                    | 36,172                     | 35,614                    | 35,000                   | 432,243                                   |
| 2. Provider Service Organizations .....  |                         |                           |                            |                           |                          |   |
| 3. Preferred Provider Organizations .....                                      |                         |                           |                            |                           |                          |   |
| 4. Point of Service .....  |                         |                           |                            |                           |                          |   |
| 5. Indemnity Only .....  |                         |                           |                            |                           |                          |   |
| 6. Aggregate write-ins for other lines of business .....                       |                         |                           |                            |                           | 92                       | 156                                       |
| 7. Total .....   | 40,048                  | 36,718                    | 36,172                     | 35,614                    | 35,092                   | 432,399                                   |
| <b>DETAILS OF WRITE-INS</b>  |                         |                           |                            |                           |                          |   |
| 0601. HIGH RISK POOL PROGRAM .....   |                         |                           |                            |                           | 92                       | 156                                       |
| 0602 .....   |                         |                           |                            |                           |                          |   |
| 0603 .....   |                         |                           |                            |                           |                          |   |
| 0698. Summary of remaining write-ins for Line 6 from overflow page .....       |                         |                           |                            |                           |                          |   |
| 0699. Totals (Line 0601 through Line 0603 plus Line 0698) (Line 6 above) ..... |                         |                           |                            |                           | 92                       | 156                                       |

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Practices

The financial statements of Physicians Health Plan of Mid-Michigan (PHPMM) are presented on the basis of accounting practices prescribed or permitted by the Michigan Office of Financial & Insurance Regulation (OFIR).

OFIR recognizes only statutory accounting practices prescribed or permitted by the state of Michigan for determining and reporting the financial condition and results of operations of an insurance company. The National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures Manual*, (NAIC SAP) has been adopted as a component of prescribed or permitted practices by the state of Michigan.

A reconciliation of PHPMM's net income and capital and surplus between NAIC SAP and practices prescribed and permitted by the state of Michigan is shown below:

|   | <u>2010</u>         | <u>2009</u>         |
|---|---------------------|---------------------|
| (1) Net Income, Michigan                  | \$ 1,391,464        | \$ 5,958,360        |
| (2) State Prescribed Practices: None      |                     |                     |
| (3) State Permitted Practices: None       |                     |                     |
| (4) Net Income, NAIC SAP                  | <u>\$ 1,391,464</u> | <u>\$ 5,958,360</u> |
| (5) Statutory Capital & Surplus, Michigan | \$51,510,034        | \$51,113,506        |
| (6) State Prescribed Practices: None      |                     |                     |
| (7) State Permitted Practices: None       |                     |                     |
| (8) Statutory Capital & Surplus, NAIC SAP | <u>\$51,510,034</u> | <u>\$51,113,506</u> |

B. Use of Estimates

In preparing the financial statements in conformity with the NAIC *Annual Statement Instructions* and *Accounting Practices and Procedures Manual*, management makes estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

C. Accounting Policy

1. Short term investments are stated at amortized cost or at market value depending upon the respective investment.

2. Bonds: Not applicable.

3. Common stocks are stated at market value.

4. Preferred stocks: Not applicable.

5. Mortgage loans: Not applicable.

6. Loan-backed securities: Not applicable.

7. Investments in subsidiaries, controlled and affiliated companies:

PHPMM records its investment in PHPMM-FamilyCare, a wholly owned subsidiary licensed as a Health Maintenance Organization (HMO) by the state of Michigan, using the audited Statutory equity method and reports the increase or decrease in the investment as a change in unrealized gain or loss for capital & surplus.

PHPMM records its investment in Shared Services Organization (SSO), a wholly owned subsidiary, using the audited Statutory equity method and reports the increase or decrease in the investment as a change in unrealized gain or loss for capital & surplus.

NOTES TO FINANCIAL STATEMENTS

PHPMM records its investment in PHPMM- TPA, a wholly owned subsidiary licensed as a Third Party Administrator by the state of Michigan, using the audited Statutory equity method and reports the increase or decrease in the investment as a change in unrealized gain or loss for capital & surplus.

PHPMM records its investment in PHPMM- Insurance Company, a wholly owned subsidiary licensed by the state of Michigan, using the audited Statutory equity method and reports the increase or decrease in the investment as a change in unrealized gain or loss for capital & surplus.

- 8. Investments in joint ventures, partnerships and limited liability companies: Not applicable.
- 9. Derivatives: Not applicable.
- 10. Premium deficiency reserves: Not applicable.

11. Estimating the liabilities for losses and loss/claim adjustment expenses: Estimates on unpaid losses are based upon the plan’s past experience, individual case estimates and an estimate for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed and any adjustments are reflected in the period determined. Loss/claim adjustment expenses related to claims is accrued based on estimates of expenses to process those claims.

- 12. Capitalization policy: The Company has not modified its capitalization from the prior period.

13. Pharmaceutical rebate receivable estimates are based upon historical rebate trends, Plan membership and estimates from PHPMM’s pharmacy benefit manager.

2. ACCOUNTING CHANGES AND CORRECTIONS OF ERRORS

Not applicable.

3. BUSINESS COMBINATIONS AND GOODWILL

Not applicable.

4. DISCONTINUED OPERATIONS

Not applicable.

5. INVESTMENTS

- A. Mortgage Loans, including Mezzanine Real Estate Loans Not applicable.
- B. Debt Restructuring Not applicable.
- C. Reverse Mortgages Not applicable.
- D. Loan-Backed Securities Not applicable.
- E. Repurchase Agreements and/or Securities Lending Transactions Not applicable.
- F. Real Estate Not applicable.
- G. Low-Income Housing Tax Credit (LIHTC) Investments Not applicable.

6. JOINT VENTURES, PARTNERSHIPS AND LIMITED LIABILITY COMPANIES

Not applicable.

7. INVESTMENT INCOME

All investment income due or accrued has been included in the filing.

8. DERIVATIVE INSTRUMENTS

Not applicable.

NOTES TO FINANCIAL STATEMENTS

9. INCOME TAXES

PHPMM is exempt from federal income taxes under Section 501(c)(4) of the Internal Revenue Code.

10. INFORMATION CONCERNING PARENT, SUBSIDIARIES AND AFFILIATES

A, B, C, D, E, F, G

PHPMM is a controlled entity of Sparrow Health System (SHS). Certain administrative expenses such as payroll are processed under a centralized Sparrow system. The financial statements have been prepared from separate records maintained by Sparrow, with certain expense items representing allocations from Sparrow.

PHPMM has a contract with PHN. PHPMM members obtain medical services from PHN.

Physicians Health Plan of Mid-Michigan—Family Care (HPMM-FC) is a not-for-profit HMO organized under the laws of the state of Michigan and is a wholly-owned subsidiary of PHPMM. Certain administrative expenses are charged to PHPMM-FC for services which apply to the PHPMM-FC participants.

PHPMM is the sole member of PHP Shared Services. The purpose of PHP Shared Services is to facilitate statewide contracting and to achieve economies of scale to obtain health maintenance organization management and other required purchased services for owners of PHP Shared Services.

PHPMM Insurance Company (PHPMM IC) is a for-profit company organized under the laws of the state of Michigan and is a wholly-owned subsidiary of PHPMM. Certain administrative expenses are charged to PHPMM IC for services which apply directly to PHPMM IC.

| Names of Insurers and Parent, Subsidiaries or Affiliates | Capital Contributions | Management Agreements and Service Contracts |
|--|-----------------------|---|
| Physicians Health Network                                |                       | \$179,060,145                               |
| Physicians Health Plan of Mid-Michigan                   |                       | (\$144,855,532)                             |
| PHP of Mid Michigan - FamilyCare                         |                       | (\$39,785,365)                              |
| PHPMM - TPA  |                       | (\$3,332,947)                               |
| PHPMM Insurance Company                                  |                       | (\$869,475)                                 |
| Sparrow Health System                                    |                       | \$9,783,174                                 |

|    |   |                 |
|----|---|-----------------|
| H. | Upstream & Downstream Deductions                      | Not Applicable. |
| I. | Investment in an SCA >10% of Admitted Assets          | Not Applicable. |
| J. | Investments in Impaired SCAs                          | Not Applicable. |
| K. | Investment in a Foreign Insurance Subsidiary          | Not Applicable. |
| L. | Investment in Downstream NonInsurance Holding Company | Not Applicable. |

11. DEBT

Not applicable.

12. RETIREMENT PLANS, DEFERRED COMPENSATION, POSTEMPLOYMENT BENEFITS AND COMPENSATED ABSENCES AND OTHER POSTRETIREMENT BENEFIT PLANS

Some PHPMM employees are covered by a noncontributory pension plan sponsored by SHS (the “Plan”). Pension benefits under the Plan are based on years of service and the employee’s compensation during the last five years of employment. The policy of the Plan is to contribute an amount equal to or at least the actuarially determined minimum funding requirement. Contributions are intended to provide for benefits attributed to service to date and for those expected to be earned in the future. Plan assets are invested primarily in equities and fixed income securities. Other PHPMM employees are covered by an approved 401(k) program. PHPMM paid \$588,000 and \$619,000 to SHS in 2010 and 2009, respectively, for their pension costs.

13. CAPITAL AND SURPLUS, SHAREHOLDERS’ DIVIDEND RESTRICTIONS AND QUASI-REORGANIZATIONS

Not applicable.

NOTES TO FINANCIAL STATEMENTS

14. CONTINGENCIES

- A. Contingent Commitments Not Applicable.
- B. Assessments Not Applicable.
- C. Gain Contingencies Not Applicable.
- D. Claims Related Extra Contractual Obligation and Bad Faith Losses Stemming From Lawsuits Not Applicable.
- E. All Other Contingencies Not Applicable.

15. LEASES

- A. Lessee Leasing Arrangements
  - (1) General leasing. Not Applicable
  - (2) Non cancelable Leases. Not Applicable.
  - (3) Sale-leaseback Transactions. Not Applicable.
- B. Lessor Leases Not Applicable.

16. INFORMATION ABOUT FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK

Not applicable.

17. SALE, TRANSFER AND SERVICING OF FINANCIAL ASSETS AND EXTINGUISHMENTS OF LIABILITIES

Not applicable.

18. GAIN OR LOSS TO THE REPORTING ENTITY FROM UNINSURED PLANS AND THE UNINSURED PORTION OF PARTIALLY INSURED PLANS

Not applicable.

19. DIRECT PREMIUM WRITTEN / PRODUCED BY MANAGING GENERAL AGENTS / THIRD PARTY ADMINISTRATORS

Not applicable.

20. FAIR VALUE MEASUREMENTS

|                            | Fair Value Measurement Using |         |         | Total        |
|----------------------------|------------------------------|---------|---------|--------------|
|                            | Level 1                      | Level 2 | Level 3 |              |
| Assets at fair value:      |                              |         |         |              |
| Common stocks              | \$21,910,955                 | \$ -    | \$ -    | \$21,910,955 |
| Short-term investments     | 36,385,939                   | -       | -       | 36,385,939   |
| Total assets at fair value | \$57,896,894                 | \$ -    | \$ -    | \$57,896,894 |

The Level 1 fair values are established from quoted (unadjusted) market prices in active markets for identical assets and liabilities. Level 1 inputs are generally quotes for debt or equity securities actively traded in exchange or over-the-counter markets.

There are no assets or liabilities recorded at fair value on a non-recurring basis as of December 31, 2010 and 2009.

21. OTHER ITEMS

- A. Extraordinary Items Not applicable.
- B. Troubled Debt Restructuring Not applicable.



NOTES TO FINANCIAL STATEMENTS

C. Other Disclosures

(1) Dividends paid by a Michigan HMO are subject to limitations imposed by the Michigan Insurance Code (the Code). Under the Code, dividends may be paid only from statutory earnings and net worth. In addition, OFIR must approve all dividends and may not approve extraordinary dividends. There were no dividend payments in 2010 or 2009.

(2) High Risk Health Insurance Pool Program: The Office of Consumer Information & Insurance Oversight in the Department of Health & Human Services in coordination with the Michigan Office of Financial & Insurance Regulation awarded a contract to PHPMM to establish and operate a temporary high risk health insurance pool program in Michigan to provide health insurance coverage to currently uninsured individuals with pre-existing conditions.

The program provided coverage for eligible individuals beginning October 01, 2010. The program ends December 31, 2013. As of December 31, 2010, PHPMM enrolled 92 individuals and recorded \$62,000 in individual enrollee revenue. In consideration for providing health care coverage, HHS reimburses PHPMM for the claims paid in excess of premium collected in addition to allowable administrative costs incurred.

|    |  |                 |
|----|--|-----------------|
| D. | Uncollectible Assets                       | Not applicable. |
| E. | Business Interruption Insurance Recoveries | Not applicable. |
| F. | State Transferable Tax Credits             | Not applicable. |
| G. | Subprime Mortgage Related Risk Exposure    | Not applicable. |

22. EVENTS SUBSEQUENT

Not applicable.

23. REINSURANCE

A. Ceded Reinsurance Report

Section 1 General Interrogatories

(1) Are any of the reinsurers, listed in Schedule S as non-affiliated, owned in excess of 10% or controlled, either directly or indirectly, by the company or by any representative, officer, trustee, or director of the company? Yes ( ) No (x)

(2) Have any policies issued by the company been reinsured with a company chartered in a country other than the United States (excluding U.S. branches of such companies) which is owned in excess of 10% or controlled directly or indirectly by an insured, a beneficiary, a creditor or an insured or any other person not primarily engaged in the insurance business? Yes ( ) No (x)

Section 2 Ceded Reinsurance Report Part A.

(1) Does the company have any reinsurance agreements in effect under which the reinsurer may unilaterally cancel for reasons other than for nonpayment of premium or other similar credit? Yes ( ) No(x).

(2) Does the company have any reinsurance agreements in effect such that the amount of losses paid or accrued through the statement date may result in a payment to the reinsured of amounts which, in aggregate and allowing for offset of mutual credits from other reinsurance agreements with the same reinsurer, exceed the total direct premium collected under the reinsured policies? Yes ( ) No (x).

Section 3 Ceded Reinsurance Report Part B.

(1) What is the estimated amount of the aggregate reduction in surplus, for agreements, not reflected in Section 2 above, of termination of all reinsurance agreements, by either party, as of the date of this statement? Where necessary, the company may consider the current or anticipated experience of the business reinsured in making this estimate. \$0.00

NOTES TO FINANCIAL STATEMENTS

(2) Have any new agreements been executed or existing agreements amended, since January 1 of the year of this statement to include policies or contracts which were in force or which had existing reserves established by the company as of the effective date of the agreement? Yes( ) No (x).

B. Uncollectible Reinsurance

Not applicable.

C. Commutation of Ceded Reinsurance

Not applicable.

24. RETROSPECTIVELY RATED CONTRACTS & CONTRACTS SUBJECT TO REDETERMINATION

Not applicable.

25. CHANGE IN INCURRED CLAIMS AND CLAIM ADJUSTMENT EXPENSES

The following table provides a reconciliation of beginning and ending reserves for claims unpaid and unpaid claim adjustment expenses, net of reinsurance recoverable on unpaid losses:

(In Thousands)

|   | 2010      | 2009      |
|---|-----------|-----------|
| Balance – January 1                         | \$ 14,098 | \$ 20,029 |
| Add provision for claims occurring in:      |           |           |
| Current year                                | 151,990   | 157,828   |
| Prior year                                  | (2,283)   | (5,777)   |
| Net incurred losses during the current year | 149,707   | 152,051   |
| Deduct payments for claims occurring in:    |           |           |
| Current year                                | 146,485   | 149,159   |
| Prior year                                  | 7,118     | 8,823     |
| Net claim payments during the current year  | 153,603   | 157,982   |
| Balance – December 31                       | \$ 10,202 | \$ 14,098 |

26. INTERCOMPANY POOLING ARRANGEMENTS

Not applicable.

27. STRUCTURED SETTLEMENTS

Not applicable.

NOTES TO FINANCIAL STATEMENTS

28. HEALTH CARE RECEIVABLES

Healthcare receivables include pharmacy rebates PHPMM receives from third party vendors. These rebates are calculated using estimates based on per claim guarantee calculations, historical rebate trends and membership. Activity for the previous three years is summarized as follows:

A. Pharmacy Rebates (In Thousands)

| Quarter    | Estimated Pharmacy Rebates as Reported on Financial Statements | Pharmacy Rebates as Billed or Otherwise Confirmed | Actual Rebates Received Within 90 Days of Billing | Actual Rebates Received Within 91 to 180 Days of Billing | Actual Rebates Received More Than 180 Days After Billing |
|------------|--|---|---|--|--|
| 12/31/2010 | 951  | 951   | -   | -  | -  |
| 9/30/2010  | 914  | 969   | 629   | -  | -  |
| 6/30/2010  | 824  | 958   | 573   | -  | -  |
| 3/31/2010  | 943  | 999   | 724   | -  | -  |

|            |     |     |     |   |     |
|------------|-----|-----|-----|---|-----|
| 12/31/2009 | 760 | 760 | 803 | - | 97  |
| 9/30/2009  | 709 | 709 | 709 | - | 315 |
| 6/30/2009  | 491 | 526 | 526 | - | 315 |
| 3/31/2009  | 484 | 489 | 489 | - | 315 |

|            |     |     |   |     |     |
|------------|-----|-----|---|-----|-----|
| 12/31/2008 | 301 | 505 | - | 505 | -   |
| 9/30/2008  | 411 | 434 | - | 434 | -   |
| 6/30/2008  | 733 | 525 | - | -   | 525 |
| 3/31/2008  | 575 | 474 | - | 474 | -   |

B. Risk Share Receivable. None

29. PARTICIPATING POLICIES

Not applicable.

30. PREMIUM DEFICIENCY RESERVES

Not applicable.

31. ANTICIPATED SALVAGE AND SUBROGATION

Not applicable.

GENERAL INTERROGATORIES  
PART 1 - COMMON INTERROGATORIES  
GENERAL

- 1.1

Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer?

Yes (X) No ( )
- 1.2

If yes, did the reporting entity register and file with its domiciliary State Insurance Commissioner, Director or Superintendent, or with such regulatory official of the state of domicile of the principal insurer in the Holding Company System, a registration statement providing disclosure substantially similar to the standards adopted by the National Association of Insurance Commissioners (NAIC) in its Model Insurance Holding Company System Regulatory Act and model regulations pertaining thereto, or is the reporting entity subject to standards and disclosure requirements substantially similar to those required by such Act and regulations?

Yes (X) No ( ) N/A ( )
- 1.3

State Regulating?

Michigan
- 2.1

Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity?

Yes ( ) No (X)
- 2.2

If yes, date of change:

.....
- 3.1

State as of what date the latest financial examination of the reporting entity was made or is being made.

12/31/2008
- 3.2

State the as of date of the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released.

12/31/2008
- 3.3

State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date).

06/08/2010
- 3.4

By what department or departments?  
MICHIGAN OFFICE OF FINANCIAL & INSURANCE REGULATION
- 3.5

Have all financial statement adjustments within the latest financial examination report been accounted for in a subsequent financial statement filed with Departments?

Yes (X) No ( ) N/A ( )
- 3.6

Have all of the recommendations within the latest financial examination report been complied with?

Yes (X) No ( ) N/A ( )
- 4.1

During the period covered by this statement, did any agent, broker, sales representative, non-affiliated sales/service organization or any combination thereof under common control (other than salaried employees of the reporting entity) receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:

4.11

sales of new business?

Yes ( ) No (X)

4.12

renewals?

Yes ( ) No (X)
- 4.2

During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:

4.21

sales of new business?

Yes ( ) No (X)

4.22

renewals?

Yes ( ) No (X)
- 5.1

Has the reporting entity been a party to a merger or consolidation during the period covered by this statement?

Yes ( ) No (X)
- 5.2

If yes, provide name of the entity, NAIC Company Code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

| 1<br>Name of Entity | 2<br>NAIC Company Code | 3<br>State of Domicile |
|---------------------|------------------------|------------------------|
| .....               | .....                  | .....                  |
| .....               | .....                  | .....                  |
| .....               | .....                  | .....                  |

- 6.1

Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period?

Yes ( ) No (X)
- 6.2

If yes, give full information:

.....  
.....
- 7.1

Does any foreign (non-United States) person or entity directly or indirectly control 10% or more of the reporting entity?

Yes ( ) No (X)
- 7.2

If yes,

7.21

State the percentage of foreign control;

..... %

7.22

State the nationality(s) of the foreign person(s) or entity(s); or if the entity is a mutual or reciprocal, the nationality of its manager or attorney-in-fact and identify the type of entity(s) (e.g. individual, corporation, government, manager or attorney-in-fact).

| 1<br>Nationality | 2<br>Type of Entity |
|------------------|---------------------|
| .....            | .....               |
| .....            | .....               |
| .....            | .....               |

GENERAL INTERROGATORIES

8.1

Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board?

Yes ( ) No (X)

8.2

If response to 8.1 is yes, please identify the name of the bank holding company.  
.....  
.....

8.3

Is the company affiliated with one or more banks, thrifts or securities firms?

Yes ( ) No (X)

8.4

If response to 8.3 is yes, please provide the names and location (city and state of the main office) of any affiliates regulated by a federal financial regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator.

| 1<br>Affiliate Name | 2<br>Location (City, State) | 3<br>FRB | 4<br>OCC | 5<br>OTS | 6<br>FDIC | 7<br>SEC |
|---------------------|-----------------------------|----------|----------|----------|-----------|----------|
| .....               | .....                       | .....    | .....    | .....    | .....     | .....    |
| .....               | .....                       | .....    | .....    | .....    | .....     | .....    |
| .....               | .....                       | .....    | .....    | .....    | .....     | .....    |

9.

What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?  
ERNST & YOUNG LLP, SUITE 1000, ONE KENNEDY SQUARE, 777 WOODWARD AVENUE, DETROIT, MICHIGAN 48226  
.....

10.1

Has the insurer been granted any exemptions to the prohibited non-audit services provided by the certified independent public accountant requirements as allowed in Section 7H of the Annual Financial Reporting Model Regulation (Model Audit Rule), or substantially similar state law or regulation?

Yes ( ) No (X)

10.2

If the response to 10.1 is yes, provide information related to this exemption:  
.....  
.....

10.3

Has the insurer been granted any exemptions to the audit committee requirements as allowed in Section 14H of the Annual Financial Model Regulation, or substantially similar state law or regulation?

Yes ( ) No (X)

10.4

If the response to 10.3 is yes, provide information related to this exemption:  
.....  
.....

10.5

Has the insurer been granted any exemptions related to the other requirements of the Annual Financial Model Regulation as allowed for in Section 17A of the Model Regulation, or substantially similar state law or regulation?

Yes ( ) No (X)

10.6

If the response to 10.5 is yes, provide information related to this exemption:  
.....  
.....

10.7

Has the reporting entity established an Audit Committee in compliance with the domiciliary state insurance laws?

Yes (X) No ( )

10.8

If the response to 10.7 is no, please explain  
.....  
.....

11.

What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with an actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification?  
GREG HERRLE, FSA CONSULTING ACTUARY WITH MILLIMAN, 15800 BLUEMOUND ROAD, SUITE 400, BROOKFIELD, WISCONSIN 53005  
.....

12.1

Does the reporting entity own any securities of a real estate holding company or otherwise hold real estate indirectly?

Yes ( ) No (X)

12.11

Name of real estate holding company  
.....  
.....

12.12

Number of parcels involved

.....

12.13

Total book/adjusted carrying value

\$ .....  
.....

12.2

If yes, provide explanation  
.....  
.....

13.

FOR UNITED STATES BRANCHES OF ALIEN REPORTING ENTITIES ONLY:

13.1

What changes have been made during the year in the United States manager or the United States trustees of the reporting entity?  
.....  
.....

13.2

Does this statement contain all business transacted for the reporting entity through its United States branch on risks wherever located?

Yes ( ) No ( )

13.3

Have there been any changes made to any of the trust indentures during the year?

Yes ( ) No ( )

13.4

If answer to (13.3) is yes, has the domiciliary or entry state approved the changes?

Yes ( ) No ( ) N/A (X)

14.1

Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards?  
(a) Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;  
(b) Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;  
(c) Compliance with applicable governmental laws, rules and regulations;  
(d) The prompt internal reporting of violations to an appropriate person or persons identified in the code; and  
(e) Accountability for adherence to the code.

Yes (X) No ( )

14.11

If the response to 14.1 is No, please explain:  
.....  
.....

14.2

Has the code of ethics for senior managers been amended?

Yes ( ) No (X)

14.21

If the response to 14.2 is Yes, provide information related to amendment(s).  
.....  
.....

14.3

Have any provisions of the code of ethics been waived for any of the specified officers?

Yes ( ) No (X)

14.31

If the response to 14.3 is Yes, provide the nature of any waiver(s).  
.....  
.....

GENERAL INTERROGATORIES

BOARD OF DIRECTORS

15.

Is the purchase or sale of all investments of the reporting entity passed upon either by the Board of Directors or a subordinate committee thereof?

Yes (X) No ( )
16.

Does the reporting entity keep a complete permanent record of the proceedings of its Board of Directors and all subordinate committees thereof?

Yes (X) No ( )
17.

Has the reporting entity an established procedure for disclosure to its board of directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees, or responsible employees that is in conflict or is likely to conflict with the official duties of such person?

Yes (X) No ( )

FINANCIAL

18.

Has this statement been prepared using a basis of accounting other than Statutory Accounting Principles (e.g., Generally Accepted Accounting Principles)?

Yes ( ) No (X)
- 19.1

Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):

19.11

To directors or other officers

\$ .....

19.12

To stockholders not officers

\$ .....

19.13

Trustees, supreme or grand (Fraternal only)

\$ .....
- 19.2

Total amount of loans outstanding at end of year (inclusive of Separate Accounts, exclusive of policy loans):

19.21

To directors or other officers

\$ .....

19.22

To stockholders not officers

\$ .....

19.23

Trustees, supreme or grand (Fraternal only)

\$ .....
- 20.1

Were any assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in the statement?

Yes ( ) No (X)
- 20.2

If yes, state the amount thereof at December 31 of the current year:

20.21

Rented from others

\$ .....

20.22

Borrowed from others

\$ .....

20.23

Leased from others

\$ .....

20.24

Other

\$ .....
- 21.1

Does this statement include payments for assessments as described in the Annual Statement Instructions other than guaranty fund or guaranty association assessments?

Yes ( ) No (X)
- 21.2

If answer is yes:

21.21

Amount paid as losses or risk adjustment

\$ .....

21.22

Amount paid as expenses

\$ .....

21.23

Other amounts paid

\$ .....
- 22.1

Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement?

Yes (X) No ( )
- 22.2

If yes, indicate any amounts receivable from parent included in the Page 2 amount:

\$ ..... 16,550

INVESTMENT

- 23.1

Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date? (other than securities lending programs addressed in 22.3)

Yes (X) No ( )
- 23.2

If no, give full and complete information relating thereto:

.....  
.....
- 23.3

For the security lending programs, provide a description of the program including value for collateral and amount of loaned securities, and whether collateral is carried on or off-balance sheet. (an alternative is to reference Note 16 where this information is also provided)

.....  
.....
- 23.4

Does the Company's security lending program meet the requirements for a conforming program as outlined in Risk-Based Capital Instructions?

Yes ( ) No ( ) N/A (X)
- 23.5

If answer to 23.4 is YES, report amount of collateral for conforming programs.

\$ .....
- 23.6

If answer to 23.4 is NO, report amount of collateral for other programs.

\$ .....
- 23.7

Does your security lending program require 102% (domestic securities) and 105% (foreign securities) from the counterparty at the outset of the contract?

Yes ( ) No ( ) N/A (X)
- 23.8

Does the reporting entity non-admit when the collateral received from the counterparty falls below 100%?

Yes ( ) No ( ) N/A (X)
- 23.9

Does the reporting entity or the reporting entity's securities lending agent utilize the Master Securities Lending Agreement (MSLA) to conduct securities lending?

Yes ( ) No ( ) N/A (X)

GENERAL INTERROGATORIES

INVESTMENT

- 24.1 Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity, or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 20.1 and 23.3)
- Yes (X) No ( )
- 24.2 If yes, state the amount thereof at December 31 of the current year:
- 24.21 Subject to repurchase agreements

24.22 Subject to reverse repurchase agreements

24.23 Subject to dollar repurchase agreements

24.24 Subject to reverse dollar repurchase agreements

24.25 Pledged as collateral

24.26 Placed under option agreements

24.27 Letter stock or securities restricted as to sale

24.28 On deposit with state or other regulatory body

24.29 Other
- \$ .....

\$ .....

\$ .....

\$ .....

\$ .....

\$ .....

\$ .....

\$ 1,166,960

\$ .....

24.3 For category (24.27) provide the following:

| 1<br>Nature of Restriction | 2<br>Description | 3<br>Amount |
|----------------------------|------------------|-------------|
| .....                      | .....            | .....       |
| .....                      | .....            | .....       |
| .....                      | .....            | .....       |

- 25.1 Does the reporting entity have any hedging transactions reported on Schedule DB?
- Yes ( ) No (X)
- 25.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state?  
If no, attach a description with this statement.
- Yes ( ) No ( ) N/A (X)
- 26.1 Were any preferred stocks or bonds owned as of December 31 of the current year mandatorily convertible into equity, or, at the option of the issuer, convertible into equity?
- Yes ( ) No (X)
- 26.2 If yes, state the amount thereof at December 31 of the current year.
- \$ .....
27. Excluding items in Schedule E - Part 3 - Special Deposits, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds, and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 1, III General Examination Considerations, F - Outsourcing of Critical Functions, Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook?
- Yes (X) No ( )
- 27.01 For agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

| 1<br>Name of Custodian(s) | 2<br>Custodian's Address                           |
|---------------------------|--|
| BNY MELLON .....          | ONE MELLON CENTER, PITTSBURGH, PA 15258-0001 ..... |
| .....                     | .....  |
| .....                     | .....  |

27.02 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation:

| 1<br>Name(s) | 2<br>Location(s) | 3<br>Complete Explanation (s) |
|--------------|------------------|-------------------------------|
| .....        | .....            | .....                         |
| .....        | .....            | .....                         |
| .....        | .....            | .....                         |

27.03 Have there been any changes, including name changes, in the custodian(s) identified in 26.01 during the current year?

Yes ( ) No (X)

27.04 If yes, give full and complete information relating thereto:

| 1<br>Old Custodian | 2<br>New Custodian | 3<br>Date of Change | 4<br>Reason |
|--------------------|--------------------|---------------------|-------------|
| .....              | .....              | .....               | .....       |
| .....              | .....              | .....               | .....       |
| .....              | .....              | .....               | .....       |

27.05 Identify all investment advisors, brokers/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

| 1<br>Central Registration Depository Number(s) | 2<br>Name | 3<br>Address                          |
|--|-----------|---------------------------------------|
| N/A .....                                      | SEI ..... | 1 FREEDOM DRIVE, OAKS, PA 19456 ..... |
| .....  | .....     | .....                                 |
| .....  | .....     | .....                                 |

GENERAL INTERROGATORIES

28.1 Does the reporting entity have any diversified mutual funds reported in Schedule D, Part 2 (diversified according to the Securities and Exchange Commission (SEC) in the Investment Company Act of 1940 [Section 5 (b) (1)])? Yes ( ) No (X)

28.2 If yes, complete the following schedule:

| 1<br>CUSIP#                           | 2<br>Name of Mutual Fund | 3<br>Book/Adjusted Carrying Value |
|---------------------------------------|--------------------------|-----------------------------------|
| .....                                 | .....                    | .....                             |
| .....                                 | .....                    | .....                             |
| .....                                 | .....                    | .....                             |
| .....                                 | .....                    | .....                             |
| Line 28.2998 from Overflow page ..... |                          | .....                             |
| Line 28.2999 TOTAL (9999999) .....    |                          | .....                             |

28.3 For each mutual fund listed in the table above, complete the following schedule:

| 1                                      | 2  | 3  | 4                 |
|--|--|--|-------------------|
| Name of Mutual Fund (from above table) | Name of Significant Holding of the Mutual Fund | Amount of Mutual Fund's Book/Adjusted Carrying Value Attributable to the Holding | Date of Valuation |
| .....                                  | .....  | .....  | .....             |
| .....                                  | .....  | .....  | .....             |
| .....                                  | .....  | .....  | .....             |

29. Provide the following information for all short-term and long-term bonds and all preferred stocks. Do not substitute amortized value or statement value for fair value.

|                             | 1<br>Statement (Admitted)<br>Value | 2<br>Fair Value     | 3<br>Excess of Statement<br>over Fair Value (-) ,<br>or Fair Value<br>over Statement (+) |
|-----------------------------|------------------------------------|---------------------|--|
| 29.1 Bonds .....            | \$ ..... 36,385,939                | \$ ..... 36,385,939 | \$ .....   |
| 29.2 Preferred stocks ..... | \$ .....                           | \$ .....            | \$ .....   |
| 29.3 Totals .....           | \$ ..... 36,385,939                | \$ ..... 36,385,939 | \$ .....   |

29.4 Describe the sources or methods utilized in determining the fair values:  
NAIC ACCOUNTING PRACTICES  
.....

30.1 Was the rate used to calculate fair value determined by a broker or custodian for any of the securities in Schedule D? Yes ( ) No (X)

30.2 If the answer to 30.1 is yes, does the reporting entity have a copy of the broker's or custodian's pricing policy (hard copy or electronic copy) for all brokers or custodians used as a pricing source? Yes ( ) No (X)

30.3 If the answer to 30.2 is no, describe the reporting entity's process for determining a reliable pricing source for purposes of disclosure of fair value for Schedule D:  
PRICE PUBLISHED IN THE NAIC VALUATION OF SECURITIES  
.....

31.1 Have all the filing requirements of the Purposes and Procedures manual of the NAIC Securities Valuation Office been followed? Yes (X) No ( )

31.2 If no, list exceptions:  
.....  
.....



GENERAL INTERROGATORIES

OTHER

32.1 Amount of payments to Trade Associations , service organizations and statistical or Rating Bureaus, if any? \$ ..... 170,065

32.2 List the name of the organization and the amount paid if any such payment represented 25% or more of the total payments to trade associations , service organizations and statistical or rating bureaus during the period covered by this statement .

| 1<br>Name                                  | 2<br>Amount Paid |
|--|------------------|
| MICHIGAN ASSOCIATION OF HEALTH PLANS ..... | \$ ..... 90,800  |
| HEALTH PLAN ALLIANCE .....                 | \$ ..... 44,539  |
| .....                                      | \$ .....         |
| .....                                      | \$ .....         |

33.1 Amount of payments for legal expenses, if any? \$ ..... 135,144

33.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payments for legal expenses during the period covered by this statement .

| 1<br>Name                          | 2<br>Amount Paid |
|------------------------------------|------------------|
| FOSTER SWIFT COLLINS & SMITH ..... | \$ ..... 108,944 |
| .....                              | \$ .....         |
| .....                              | \$ .....         |
| .....                              | \$ .....         |

34.1 Amount of payments for expenditures in connection with matters before legislative bodies , officers or departments of government, if any? \$ .....

34.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payment expenditures in connection with matters before legislative bodies , officers or departments of government during the period covered by this statement .

| 1<br>Name | 2<br>Amount Paid |
|-----------|------------------|
| .....     | \$ .....         |
| .....     | \$ .....         |
| .....     | \$ .....         |
| .....     | \$ .....         |

GENERAL INTERROGATORIES

PART 2 - HEALTH INTERROGATORIES

1.1

Does the reporting entity have any direct Medicare Supplement Insurance in force?

Yes ( ) No (X)

1.2

If yes, indicate premium earned on U. S. business only.

\$ .....

1.3

What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit?

\$ .....

1.31

Reason for excluding:

.....

.....

1.4

Indicate amount of earned premium attributable to Canadian and/or Other Alien not included in Item (1.2) above

\$ .....

1.5

Indicate total incurred claims on all Medicare Supplement insurance.

\$ .....

1.6

Individual policies:

Most current three years:

1.61

Total premium earned

\$ .....

1.62

Total incurred claims

\$ .....

1.63

Number of covered lives

.....

All years prior to most current three years:

1.64

Total premium earned

\$ .....

1.65

Total incurred claims

\$ .....

1.66

Number of covered lives

.....

1.7

Group policies:

Most current three years:

1.71

Total premium earned

\$ .....

1.72

Total incurred claims

\$ .....

1.73

Number of covered lives

.....

All years prior to most current three years:

1.74

Total premium earned

\$ .....

1.75

Total incurred claims

\$ .....

1.76

Number of covered lives

.....

2.

Health Test:

2.1

Premium Numerator

\$ ..... 164,328,413

\$ ..... 178,322,864

2.2

Premium Denominator

\$ ..... 164,328,416

\$ ..... 178,322,864

2.3

Premium Ratio (2.1 / 2.2)

..... 1.000

..... 1.000

2.4

Reserve Numerator

\$ ..... 14,087,522

\$ ..... 18,923,360

2.5

Reserve Denominator

\$ ..... 14,087,522

\$ ..... 18,923,360

2.6

Reserve Ratio (2.4 / 2.5)

..... 1.000

..... 1.000

3.1

Has the reporting entity received any endowment or gift from contracting hospitals, physicians, dentists, or others that is agreed will be returned when, as and if the earnings of the reporting entity permits?

Yes ( ) No (X)

3.2

If yes, give particulars:

.....

.....

4.1

Have copies of all agreements stating the period and nature of hospitals', physicians', and dentists' care offered to subscribers and dependents been filed with the appropriate regulatory agency?

Yes (X) No ( )

4.2

If not previously filed, furnish herewith a copy(ies) of such agreement(s). Do these agreements include additional benefits offered?

Yes ( ) No (X)

5.1

Does the reporting entity have stop-loss reinsurance?

Yes (X) No ( )

5.2

If no, explain:

.....

.....

5.3

Maximum retained risk (see instructions)

5.31

Comprehensive Medical

\$ ..... 300,000

5.32

Medical Only

\$ .....

5.33

Medicare Supplement

\$ .....

5.34

Dental & Vision

\$ .....

5.35

Other Limited Benefit Plan

\$ .....

5.36

Other

\$ .....

6.

Describe arrangement which the reporting entity may have to protect subscribers and their dependents against the risk of insolvency including hold harmless provisions, conversion privileges with other carriers, agreements with providers to continue rendering services, and any other agreements:

HOLD HARMLESS PROVISION IN PROVIDER CONTRACTS.

STATE REQUIRED RESERVES & INSOLVENCY CLAUSE IN REINSURANCE CONTRACT.

7.1

Does the reporting entity set up its claim liability for provider services on a service date basis?

Yes (X) No ( )

7.2

If no, give details:

.....

.....

8.

Provide the following information regarding participating providers:

8.1

Number of providers at start of reporting year

..... 1,646

8.2

Number of providers at end of reporting year

..... 1,672

9.1

Does the reporting entity have business subject to premium rate guarantees?

Yes ( ) No (X)

9.2

If yes, direct premium earned:

9.21

Business with rate guarantees between 15-36 months

.....

9.22

Business with rate guarantees over 36 months

.....

27

GENERAL INTERROGATORIES (Continued)

PART 2 - HEALTH INTERROGATORIES

10.1

Does the reporting entity have Incentive Pool, Withhold, or Bonus Arrangements in its provider contracts?

Yes (X) No ( )

10.2

If yes:

10.21

Maximum amount payable bonuses

\$ ..... 195,149

10.22

Amount actually paid for year bonuses

\$ ..... 195,149

10.23

Maximum amount payable withholds

\$ ..... 13,997,463

10.24

Amount actually paid for year withholds

\$ ..... 13,997,463

11.1

Is the reporting entity organized as:

11.12

A Medical Group / Staff Model,

Yes ( ) No (X)

11.13

An Individual Practice Association (IPA) , or

Yes (X) No ( )

11.14

A Mixed Model (combination of above)?

Yes ( ) No (X)

11.2

Is the reporting entity subject to Minimum Net Worth Requirements?

Yes (X) No ( )

11.3

If yes, show the name of the state requiring such net worth.

..... Michigan

11.4

If yes, show the amount required.

\$ ..... 21,000,704

11.5

Is this amount included as part of a contingency reserve in stockholder's equity?

Yes ( ) No (X)

11.6

If the amount is calculated, show the calculation

12/31/2010 RBC COMPANY ACTION LEVEL = 21,000,704

.....

12.1 List service areas in which reporting entity is licensed to operate:

| 1  |
|--|
| Name of Service Area                                 |
| CLINTON, EATON, GRATIOT, HILLSDALE, INGHAM, IONIA    |
| ISABELLA (PART) , JACKSON, LENAWEE (PART) , MONTCALM |
| SAGINAW (PART) , SHIAWASSEE, WASHTENAW (PART)        |

13.1

Do you act as a custodian for health savings accounts?

Yes ( ) No (X)

13.2

If yes, please provide the amount of custodial funds held as of the reporting date.

\$ .....

13.3

Do you act as an administrator for health savings accounts?

Yes ( ) No (X)

13.4

If yes, please provide the balance of the funds administered as of the reporting date.

\$ .....

GENERAL INTERROGATORIES - Line 12 (continued)

| 1<br>Name of Service Area  |  |
|----------------------------|--|
| Name of Service Area       |  |
| CLINTON COUNTY             |  |
| EATON COUNTY               |  |
| GRATIOT COUNTY             |  |
| HILLSDALE COUNTY           |  |
| INGHAM COUNTY              |  |
| IONIA COUNTY               |  |
| ISABELLA COUNTY (PARTIAL)  |  |
| JACKSON COUNTY             |  |
| LENAWEE COUNTY (PARTIAL)   |  |
| MONTCALM COUNTY            |  |
| SAGINAW COUNTY (PARTIAL)   |  |
| SHIAWASSEE COUNTY          |  |
| WASHTENAW COUNTY (PARTIAL) |  |
| 12 - Name of Service Area  |  |

FIVE - YEAR HISTORICAL DATA

|   | 1           | 2           | 3           | 4           | 5           |
|---|-------------|-------------|-------------|-------------|-------------|
|   | 2010        | 2009        | 2008        | 2007        | 2006        |
| BALANCE SHEET (Page 2 and Page 3)   |             |             |             |             |             |
| 1. Total admitted assets (Page 2, Line 28)  | 73,918,572  | 80,031,898  | 69,146,342  | 86,680,724  | 72,523,611  |
| 2. Total liabilities (Page 3, Line 24)  | 22,408,538  | 28,918,392  | 35,995,715  | 48,375,039  | 41,883,976  |
| 3. Statutory surplus  | 21,000,704  | 21,575,238  | 17,563,702  | 20,202,512  | 21,444,294  |
| 4. Total capital and surplus (Page 3, Line 33)  | 51,532,173  | 51,113,506  | 33,150,627  | 38,305,685  | 30,639,635  |
| INCOME STATEMENT (Page 4)   |             |             |             |             |             |
| 5. Total revenues (Line 8)  | 164,328,413 | 178,322,864 | 175,298,274 | 207,452,283 | 230,417,691 |
| 6. Total medical and hospital expenses (Line 18)  | 150,123,838 | 156,681,838 | 154,163,992 | 182,280,987 | 205,689,707 |
| 7. Claims adjustment expenses (Line 20)   | 3,685,460   | 3,989,944   | 4,201,512   | 5,221,023   | 4,897,343   |
| 8. Total administrative expenses (Line 21)  | 10,603,780  | 11,415,246  | 12,020,543  | 15,844,557  | 15,448,303  |
| 9. Net underwriting gain (loss) (Line 24)   | (84,665)    | 6,235,836   | 4,912,227   | 4,105,716   | 4,382,338   |
| 10. Net investment gain (loss) (Line 27)  | 390,787     | (277,810)   | (1,686,598) | 2,807,042   | 3,180,097   |
| 11. Total other income (Line 28 plus Line 29)   | 1,085,342   | 334         | 6,400       | 5,779       |             |
| 12. Net income or (loss) (Line 32)  | 1,391,464   | 5,958,360   | 3,232,029   | 6,918,537   | 7,562,435   |
| CASH FLOW (Page 6)  |             |             |             |             |             |
| 13. Net cash from operations (Line 11)  | (3,823,137) | (310,322)   | 105,364     | 3,184,184   | 11,432,697  |
| RISK-BASED CAPITAL ANALYSIS   |             |             |             |             |             |
| 14. Total adjusted capital  | 51,532,173  | 51,113,506  | 33,150,627  | 38,305,685  | 30,639,635  |
| 15. Authorized control level risk-based capital   | 10,500,352  | 10,787,619  | 8,778,448   | 10,101,256  | 10,722,147  |
| ENROLLMENT (Exhibit 1)  |             |             |             |             |             |
| 16. Total members at end of period (Column 5, Line 7)   | 35,092      | 40,048      | 40,811      | 48,801      | 65,692      |
| 17. Total members months (Column 6, Line 7)   | 432,399     | 498,975     | 513,862     | 658,973     | 820,075     |
| OPERATING PERCENTAGE (Page 4)<br>(Item divided by Page 4, sum of Line 2, Line 3, and Line 5) X 100.0        |             |             |             |             |             |
| 18. Premiums earned plus risk revenue (Line 2 plus Line 3 plus Line 5)                                      | 100.0       | 100.0       | 100.0       | 100.0       | 100.0       |
| 19. Total hospital and medical plus other non-health (Line 18 plus Line 19)                                 | 91.4        | 87.9        | 87.9        | 87.9        | 89.3        |
| 20. Cost containment expenses   | 1.5         | 1.5         | 1.6         | 0.2         | 0.1         |
| 21. Other claims adjustment expenses  | 0.7         | 0.7         | 0.8         | 2.3         | 2.1         |
| 22. Total underwriting deductions (Line 23)   | 100.1       | 96.5        | 97.2        | 98.0        | 98.1        |
| 23. Total underwriting gain (loss) (Line 24)  | (0.1)       | 3.5         | 2.8         | 2.0         | 1.9         |
| UNPAID CLAIMS ANALYSIS<br>(U and I Exhibit, Part 2B)  |             |             |             |             |             |
| 24. Total claims incurred for prior years (Line 13, Column 5)   | 11,562,489  | 22,173,302  | 33,920,850  | 35,163,505  | 27,790,526  |
| 25. Estimated liability of unpaid claims of prior year (Line 13, Column 6)                                  | 17,089,568  | 26,643,908  | 30,837,808  | 35,574,706  | 29,957,647  |
| INVESTMENTS IN PARENT, SUBSIDIARIES, AND AFFILIATES   |             |             |             |             |             |
| 26. Affiliated bonds (Schedule D Summary, Line 12, Column 1)  |             |             |             |             |             |
| 27. Affiliated preferred stocks (Schedule D Summary, Line 18, Column 1)                                     |             |             |             |             |             |
| 28. Affiliated common stocks (Schedule D Summary, Line 24, Column 1)  | 6,251,943   | 9,191,247   | 7,362,083   | 8,276,035   | 8,468,093   |
| 29. Affiliated short-term investments (subtotal included in<br>Schedule DA Verification, Column 5, Line 10) |             |             |             |             |             |
| 30. Affiliated mortgage loans on real estate  |             |             |             |             |             |
| 31. All other affiliated  | 6,517,946   | 6,657,461   | 5,349,882   | 6,839,205   | 6,602,332   |
| 32. Total of above Line 26 to Line 31   | 12,769,889  | 15,848,708  | 12,711,965  | 15,115,240  | 15,070,425  |

Note: If a party to a merger, have the two most recent years of this exhibit been restated due to a merger in compliance with the disclosure requirements of SSAP No. 3, Accounting Changes and Correction of Errors?

Yes ( ) No ( )

If no, please explain:

SCHEDULE T - PREMIUMS AND OTHER CONSIDERATIONS

Allocated by States and Territories

| States, Etc.  | 1             |       | Direct Business Only Year to Date |                      |                    |  |  |                             |                                 |                        |
|---|---------------|-------|-----------------------------------|----------------------|--------------------|--|--|-----------------------------|---------------------------------|------------------------|
|   | Active Status |       | 2                                 | 3                    | 4                  | 5  | 6  | 7                           | 8                               | 9                      |
|   |               |       | Accident and Health Premiums      | Medicare Title XVIII | Medicaid Title XIX | Federal Employees Health Benefits Program Premiums | Life and Annuity Premiums and Other Considerations | Property/ Casualty Premiums | Total Column 2 Through Column 7 | Deposit-Type Contracts |
| 1. Alabama  | AL            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 2. Alaska   | AK            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 3. Arizona  | AZ            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 4. Arkansas   | AR            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 5. California   | CA            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 6. Colorado   | CO            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 7. Connecticut  | CT            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 8. Delaware   | DE            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 9. District of Columbia                                       | DC            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 10. Florida   | FL            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 11. Georgia   | GA            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 12. Hawaii  | HI            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 13. Idaho   | ID            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 14. Illinois  | IL            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 15. Indiana   | IN            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 16. Iowa  | IA            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 17. Kansas  | KS            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 18. Kentucky  | KY            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 19. Louisiana   | LA            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 20. Maine   | ME            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 21. Maryland  | MD            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 22. Massachusetts   | MA            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 23. Michigan  | MI            | L     | 162,541,020                       |                      |                    | 3,823,661  |  |                             | 166,364,681                     |                        |
| 24. Minnesota   | MN            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 25. Mississippi   | MS            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 26. Missouri  | MO            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 27. Montana   | MT            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 28. Nebraska  | NE            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 29. Nevada  | NV            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 30. New Hampshire   | NH            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 31. New Jersey  | NJ            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 32. New Mexico  | NM            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 33. New York  | NY            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 34. North Carolina  | NC            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 35. North Dakota  | ND            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 36. Ohio  | OH            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 37. Oklahoma  | OK            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 38. Oregon  | OR            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 39. Pennsylvania  | PA            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 40. Rhode Island  | RI            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 41. South Carolina  | SC            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 42. South Dakota  | SD            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 43. Tennessee   | TN            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 44. Texas   | TX            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 45. Utah  | UT            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 46. Vermont   | VT            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 47. Virginia  | VA            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 48. Washington  | WA            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 49. West Virginia   | WV            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 50. Wisconsin   | WI            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 51. Wyoming   | WY            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 52. American Samoa  | AS            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 53. Guam  | GU            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 54. Puerto Rico   | PR            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 55. U.S. Virgin Islands                                       | VI            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 56. Northern Mariana Islands                                  | MP            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 57. Canada  | CN            | N     |                                   |                      |                    |  |  |                             |                                 |                        |
| 58. Aggregate Other Alien                                     | OT            | X X X |                                   |                      |                    |  |  |                             |                                 |                        |
| 59. Subtotal  |               | X X X | 162,541,020                       |                      |                    | 3,823,661  |  |                             | 166,364,681                     |                        |
| 60. Reporting entity contributions for Employee Benefit Plans |               | X X X |                                   |                      |                    |  |  |                             |                                 |                        |
| 61. Total (Direct Business)                                   | (a)           | 1     | 162,541,020                       |                      |                    | 3,823,661  |  |                             | 166,364,681                     |                        |

DETAILS OF WRITE-INS

|       |  |  |  |  |  |  |  |  |  |  |
|-------|--|--|--|--|--|--|--|--|--|--|
| 5801. |  |  |  |  |  |  |  |  |  |  |
| 5802. |  |  |  |  |  |  |  |  |  |  |
| 5803. |  |  |  |  |  |  |  |  |  |  |
| 5898. | Summary of remaining write-ins for Line 58 from overflow page      |  |  |  |  |  |  |  |  |  |
| 5899. | Total (Line 5801 through Line 5803 plus Line 5898) (Line 58 above) |  |  |  |  |  |  |  |  |  |

|   |  |  |  |  |  |  |  |  |  |  |
|---|--|--|--|--|--|--|--|--|--|--|
| Explanation of basis of allocation by states, premiums by state, etc. |  |  |  |  |  |  |  |  |  |  |
| ALL PREMIUMS WRITTEN IN THE STATE OF MICHIGAN                         |  |  |  |  |  |  |  |  |  |  |
|   |  |  |  |  |  |  |  |  |  |  |
|   |  |  |  |  |  |  |  |  |  |  |

(a) Insert the number of "L" responses except for Canada and Other Alien.

ANNUAL STATEMENT FOR THE YEAR 2010 OF THE PHYSICIANS HEALTH PLAN OF MID-MICHIGAN  
SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP  
PART 1 - ORGANIZATIONAL CHART

|    | NAIC Group<br>Code | Group Name                                | NAIC Company<br>Code | State of<br>Domicile | FEI Number | Name of Company                           |
|----|--------------------|---|----------------------|----------------------|------------|---|
| 1  | 3408               | SPARROW HEALTH SYSTEM                     |                      | MI                   | 38-6091657 | SPARROW WOMEN'S HOSPITAL<br>ASSOCIATION   |
| 2  | 3408               | SPARROW HEALTH SYSTEM                     |                      | MI                   | 38-1490180 | CARSON CITY HOSPITAL                      |
| 3  | 3408               | SPARROW HEALTH SYSTEM                     |                      | MI                   | 38-3218134 | IONIA COUNTY MEMORIAL HOSPITAL            |
| 4  | 3408               | SPARROW HEALTH SYSTEM                     |                      | MI                   | 38-1358172 | CLINTON MEMORIAL HOSPITAL                 |
| 5  | 3408               | SPARROW HEALTH SYSTEM                     |                      | MI                   | 38-6100687 | SPARROW FOUNDATION                        |
| 6  | 3408               | SPARROW HEALTH SYSTEM                     |                      | MI                   | 38-2594856 | PHYSICIANS HEALTH NETWORK                 |
| 7  | 3408               | SPARROW HEALTH SYSTEM                     |                      | MI                   | 38-2543305 | SPARROW HOME CARE                         |
| 8  | 3408               | SPARROW HEALTH SYSTEM                     |                      | MI                   | 14-1885340 | SPARROW SPECIALTY HOSPITAL                |
| 9  | 3408               | SPARROW HEALTH SYSTEM                     |                      | MI                   | 38-1360584 | E.W. SPARROW HOSPITAL ASSOCIATION         |
| 10 | 3408               | E.W. SPARROW HOSPITAL ASSOCIATION         |                      | MI                   | 38-2852340 | MID-MICHIGAN MRI, INC                     |
| 11 | 3408               | E.W. SPARROW HOSPITAL ASSOCIATION         |                      | MI                   | 38-3146604 | SPARROW PHYSICIANS HEALTH<br>NETWORK      |
| 12 | 3408               | E.W. SPARROW HOSPITAL ASSOCIATION         |                      | MI                   | 38-1969044 | GRADUATE MEDICAL EDUCATION, INC           |
| 13 | 3408               | E.W. SPARROW HOSPITAL ASSOCIATION         |                      | MI                   |            | PREMIER                                   |
| 14 | 3408               | E.W. SPARROW HOSPITAL ASSOCIATION         |                      | MI                   |            | CAYMICH INSURANCE COMPANY, LTD            |
| 15 | 3408               | E.W. SPARROW HOSPITAL ASSOCIATION         |                      | MI                   |            | FINCOR HOLDINGS, INC                      |
| 16 | 3408               | E.W. SPARROW HOSPITAL ASSOCIATION         |                      | MI                   |            | NORTH GRAND RIVER COOPERATIVE             |
| 17 | 3408               | E.W. SPARROW HOSPITAL ASSOCIATION         |                      | MI                   | 38-2566150 | LANSING MEDICAL DENTAL BUILDING           |
| 18 | 3408               | E.W. SPARROW HOSPITAL ASSOCIATION         |                      | MI                   | 38-2635630 | MEDICAL CENTER WEST CONDO<br>ASSOCIATION  |
| 19 | 3408               | E.W. SPARROW HOSPITAL ASSOCIATION         |                      | MI                   | 38-2608097 | PHARMACY PLUS                             |
| 20 | 3408               | E.W. SPARROW HOSPITAL ASSOCIATION         |                      | MI                   |            | SPARROW MEDICAL GROUP                     |
| 21 | 3408               | E.W. SPARROW HOSPITAL ASSOCIATION         |                      | MI                   |            | TCI DIVISION                              |
| 22 | 3408               | SPARROW HEALTH SYSTEM                     | 95849                | MI                   | 38-2356288 | PHYSICIANS HEALTH PLAN OF<br>MID-MICHIGAN |
| 23 | 3408               | PHYSICIANS HEALTH PLAN OF<br>MID-MICHIGAN |                      | MI                   | 38-3361367 | PHYSICIANS HEALTH PLAN SHARED SVCS<br>ORG |
| 24 | 3408               | PHYSICIANS HEALTH PLAN OF<br>MID-MICHIGAN |                      | MI                   | 38-3344741 | PHPMM TPA                                 |
| 25 | 3408               | PHYSICIANS HEALTH PLAN OF<br>MID-MICHIGAN | 11537                | MI                   | 36-4497604 | PHPMM FAMILYCARE                          |
| 26 | 3408               | PHYSICIANS HEALTH PLAN OF<br>MID-MICHIGAN | 12916                | MI                   | 20-5565219 | PHPMM INSURANCE COMPANY                   |
| 27 | 3408               | SPARROW HEALTH SYSTEM                     |                      | MI                   | 38-2595963 | SPARROW DEVELOPMENT, INC                  |
| 28 | 3408               | SPARROW DEVELOPMENT, INC                  |                      | MI                   |            | ST LAWRENCE OR MANAGEMENT<br>COMPANY, LLC |
| 29 | 3408               | SPARROW DEVELOPMENT, INC                  |                      | MI                   |            | MICHIGAN ATHLETIC CLUB                    |
| 30 | 3408               | SPARROW DEVELOPMENT, INC                  |                      | MI                   |            | SPARROW PRACTICE MANAGEMENT<br>COMPANY    |
| 31 | 3408               | SPARROW DEVELOPMENT, INC                  |                      | MI                   | 38-3243561 | SPARROW REGIONAL MEDICAL SUPPLY           |

Health

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